EMCO LIMITED

2001 ANNUAL REPORT

> financial highlights

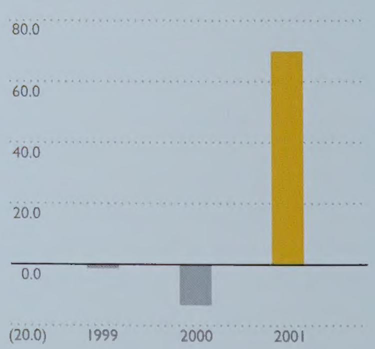
(December 31)	2001	2000
Operating earnings (millions)	$ 38.0	$ 17.4
Net earnings (millions)	$ 9.6	$ 1.8
Earnings per share	$ 0.51	$ 0.01
Net cash flow (millions)	$ 70.0	$ (15.2)
Long-term debt (millions)	$ 114.6	$ 180.7
Total debt to equity	0.9	1.4
Stock price per share (TSE)[1]	$ 6.30	$ 3.35
Book value per share	$ 8.37	$ 7.82

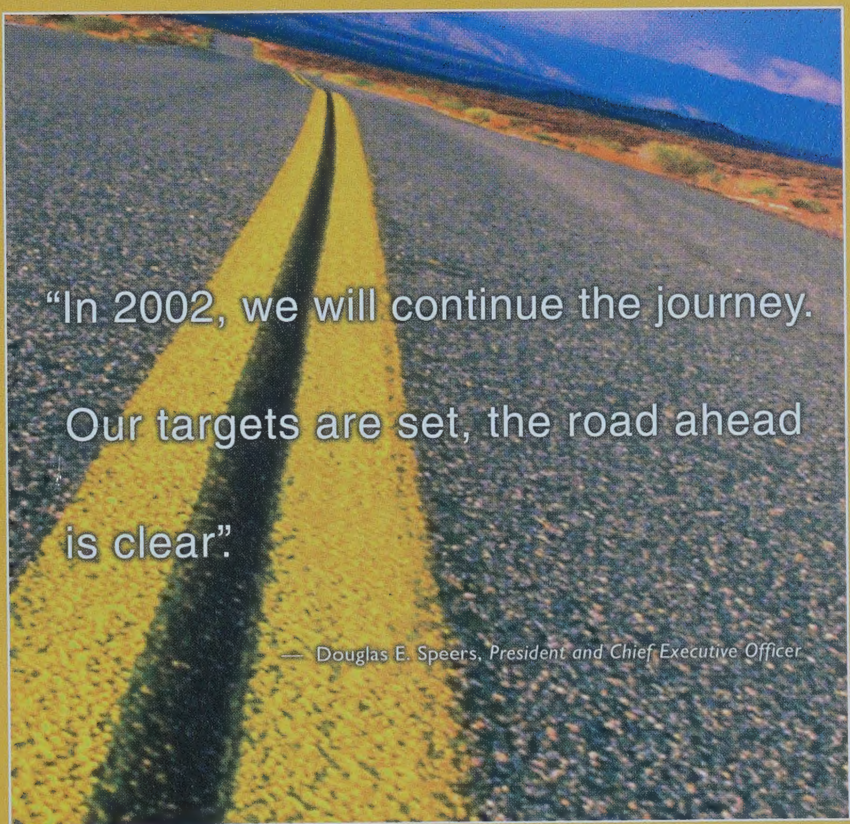
[1] Toronto Stock Exchange

Earnings per Share by Quarter

Emco Limited Common Shares - TSE

Net Cash Flow
($ millions)



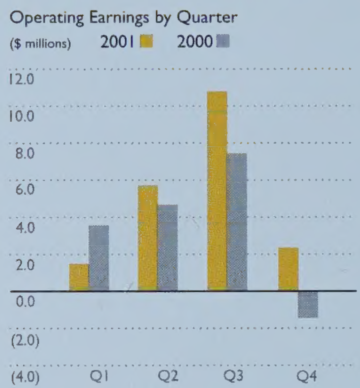

"In 2002, we will continue the journey.
Our targets are set, the road ahead
is clear".
— Douglas E. Speers, *President and Chief Executive Officer*

> Emco's segments

Distribution is a leading wholesale distributor of plumbing and related products to the construction industry, supplying brand name products to contractors, utilities, governments, and major industrial customers in Canada. Distribution is also a master distributor of industrial products across North America. A network of branches, distribution warehouses and showrooms serve our customers throughout Canada and the United States.

Manufacturing includes Emco Building Products Ltd. and Metcraft Inc.. Building Products is a leading Canadian manufacturer and distributor of building materials for the Canadian and northern U.S. markets. Metcraft manufactures stainless steel specialty products for food service and institutional customers in North America and Europe.

> DISTRIBUTION



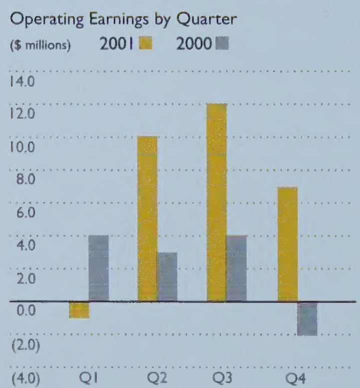
Financial Summary *($ thousands)*	2001	2000
Sales	**949,978**	981,725
Operating earnings	**20,402**	14,511
Identifiable assets	**351,818**	379,989
Depreciation and amortization	**6,052**	4,434
Capital expenditures	**4,608**	6,867

> Plumbing

Products

- Brand name kitchen and bath fixtures and accessories
- Copper and ABS pipe and fittings
- Heating, ventilating and air conditioning equipment
- Compressors, controls and accessories
- Hydronic products including boilers, controls, pipe and fittings
- Fire protection equipment

> MANUFACTURING



Financial Summary *($ thousands)*	2001	2000
Sales	**314,511**	263,293
Operating earnings	**27,396**	9,674
Identifiable assets	**170,166**	181,466
Depreciation and amortization	**11,121**	10,217
Capital expenditures	**10,253**	6,923

> Building Products BP™

Products

- Standard asphalt roofing shingles and high-end laminated, slate-style and other architectural shingles
- Asphalt felt and roll roofing products
- Industrial/commercial roofing products
- Dry felt paper
- Roof insulation, structural board, and high-performance exterior panels
- Ceiling tiles
- Other specialty wood fibre products

Customers

- Plumbing and mechanical contractors (residential and commercial)
- Renovators
- Plumbing tradesmen
- Retail outlets
- Lumber and building supply stores

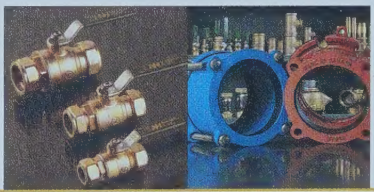
> Waterworks

Products

- Polyvinylchloride (PVC) pipe
- Valves and hydrants
- Geotextile products
- Meters
- High density polyethylene (HDPE) pipe

Customers

- Developers installing water mains and sewers
- Municipalities repairing and upgrading infrastructure
- Water treatment facilities



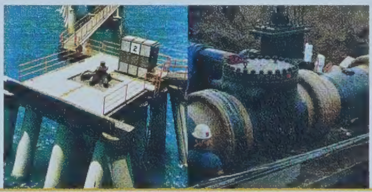
> Industrial

Products

- PVC pipe and fittings
- Carbon and stainless steel pipe, flanges and fittings
- Bronze, iron and steel valves

Customers

- Oil/gas/petro-chemical
- Offshore oil and gas
- Pulp & paper
- Mining & smelting
- Power & co-generation
- Industrial wholesalers



Customers

- Renovation and new construction contractors
- Industrial roofers
- Manufactured home builders
- Retail building supply stores
- Lumberyards and home centres
- Specialty distributors

> Metcraft

Products

- POWER SOAK®, an industry leading high efficiency pot washing system
- Stainless steel securityware products (plumbing fixtures)
- Custom food service stainless steel products
- Custom laser cutting capabilities

Customers

- Quick serve and full service restaurant chains
- Grocery, delicatessen, bakery and super market chains
- Commercial and institutional users
- Correctional institutions in North America
- Hospitals and schools
- International markets and distributors

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> "It is a pleasure to report much improved 2001 financial results for Emco."

— Douglas E. Speers, *President and Chief Executive Officer*

> message to shareholders

It gives me great pleasure to report much improved 2001 financial results for Emco. Net earnings and net cash flow were significantly higher and debt was substantially reduced.

It is particularly gratifying to see these positive trends. They are a result of all of the changes we have been implementing over the past two to three years. While we worked on many programs last year, there were three central themes to the objectives we established at the beginning of 2001 – an improvement in product margins, a reduction in certain expenses, and a drive to provide very positive cash flow. I'm pleased to report we met or exceeded each of these targets. Both of our operating segments, Distribution and Manufacturing, contributed to the improvement in our financial results and Emco's operating earnings in 2001 more than doubled to $38.0 million. Cash flow increased to $70.0 million. The cash generated was used to reduce Emco's long-term debt by more than $66 million. As a result, Emco's financial position at December 31, 2001 was much stronger than a year ago, and the Company's debt to equity ratio was greatly improved.

Within Distribution, operating earnings increased by 41 percent over the prior year despite the fact that revenues were lower than in 2000. There are three reasons for the volume decline: our decision to not sell some lower margin volume, our decision to exit from an unprofitable heating, ventilating and refrigeration business in certain regions, and significant deflation in the selling prices of certain waterworks products.

Margin enhancement programs were very successful and new systems and processes within Distribution were the key reasons that expenses were driven to much lower levels.

We continued to optimize our network of branches within Distribution in Canada in 2001, closing or consolidating six branch facilities. As part of this program we downsized the Richmond, B.C. distribution centre and moved certain functions to smaller locations. This change resulted in one-time severance and other costs of $1.8 million.

The focus on asset productivity and specialization of facilities will continue. In the greater Toronto area, for example, a specialized waterworks facility was recently opened and three new branches will be opened later this year to serve plumbing and industrial customers. Similar changes will occur in Montreal and Vancouver.

In addition to our focus on margin enhancement and expense reduction within Distribution, we have initiated a number of volume growth programs. These initiatives are aimed at specific products within the plumbing category where margins can be maintained or improved. There are also opportunities for growth in both industrial and waterworks products. Recent announcements regarding energy projects in western Canada and Atlantic offshore are positive for Emco. Within waterworks, product demand is expected to grow as municipalities upgrade and replace existing infrastructure to ensure a high level of water quality.

Additionally, our North American strategy for Emco's master distribution business unit is providing opportunities by combining the strengths of the Canadian and U.S. divisions.

Turning now to Manufacturing, sales for this segment were up 20% in 2001 and operating earnings increased by 183%. This improvement was driven solely by Building Products as this division had a much improved year in 2001. Demand for roofing products was strong and product margins returned to normal historical levels.

Growth in demand for shingles rebounded from a decline in 2000 as the weather was favourable for roofing activities and renovation activity was strong. The age of the existing housing stock continues to drive the level of re-roofing activity. However consumers are increasingly choosing high-end architectural roofing products. This market change increases demand and positively influences margins. At Emco we are adding new products for both the Canadian and export markets. Last year we experienced strong growth in exports to the U.S. market and we expect this trend to continue in 2002.

To meet the increased demand we have undertaken a number of steps to enhance capacity within our manufacturing facilities. The purchase of North American Felt, the asphalt felt manufacturing operation located in Joliette, Québec, will also provide additional capacity and flexibility. Over time we will move more production of saturated felt to this site, allowing our Montreal roofing plant to produce a wider range of high-end roofing products. North American Felt had strong sales in 2001 as a result of increased exports to the U.S. and contributed more than $6.0 million to our operating earnings last year.

In 2001, we entered an alliance with an American roofing manufacturer to produce certain higher end, architectural shingles and we continue to explore opportunities for similar alliances with other manufacturers.

Sales for our wood fibre business increased in 2001 mainly because of increased exports to the U.S. and higher volumes of specialty products. Due to improvements we are making in our manufacturing processes for wood fibre products and the continuous drive to enhance sales mix, we expect results for this business to improve further in 2002.

Sales for Metcraft, our U.S. manufacturer of stainless steel products, decreased slightly in 2001. Some POWER SOAK® customers, mainly owners of quick serve restaurants, decided to defer discretionary capital expenditures as the U.S. economy slowed. We did, however, obtain approval for POWER SOAK from two additional international quick serve restaurant chains and we expect sales for this business to increase in 2002 as the U.S. economy strengthens. We are also expanding sales of POWER SOAK into Europe and initial sales are very encouraging.

There is still some uncertainty about the strength of the general economy in North America in 2002. While I expect GDP growth in Canada to be positive this year, I believe it will be modest in the first half gaining momentum in the latter part of the year. Current forecasts for the construction industry suggest that it will remain relatively strong.

Within Emco, we will continue to manage the areas that we control. The higher product margins that we achieved in both segments and the improved expense levels in Distribution in Canada will continue. Lower interest rates and reductions in total debt outstanding will also contribute to enhanced earnings.

A final word about cash flow. The programs we implemented over the past two years allowed us to achieve a step change improvement in working capital levels in 2001. This year we will continue to generate positive cash flow but the level will be less than the $70 million generated in 2001. The major portion of cash will come from earnings with a smaller percentage coming from working capital improvements. I might add that we will continue to invest in new product capability in Building Products.

Last year, we made considerable progress towards our longer-term financial targets and the market value of Emco's publicly traded securities increased significantly. We continue to identify new opportunities to enhance shareholder value. The theme we have chosen for our annual report reflects the commitment of the entire organization to this continuous improvement.

The employees at Emco have worked extremely hard to produce the improved results in 2001. It goes without saying that this would not have been possible without their dedication, energy and enthusiasm. I want to extend my sincere thanks to each and very employee for his or her contribution.

In 2002, we will continue the journey. Our targets are set, the road ahead is clear and I look forward to reporting improved results throughout the balance of this year.

Douglas E. Speers
President and Chief Executive Officer,
Emco Limited


Port Coquitlam
Mission
Chilliwack
Newhalem
NORTH CASCADES

> setting the course

We began the year 2001 with a clear direction: a commitment to substantial improvement across the company, quality innovative product offerings and superior customer service. All key components to drive our financial results.

Our goal is to produce above average returns on equity for our shareholders. To meet this goal we have set clear financial targets for our segments: return on sales, return on net investment and sales growth.

Specific strategies and plans for each of our segments have also been developed, based on: a focus on the customer, leadership in the industries in which we operate, a commitment to relentless improvement, an investment in our employees and a balanced approach to improving our financial position.

We set specific objectives for Emco in 2001 and these objectives were achieved. Profitability was improved through higher product margins in both segments and reduced expenses in Distribution in Canada. Our investment in Distribution's inventory in Canada was substantially reduced. The result was that operating earnings doubled, net cash generation reached $70 million and long-term debt was reduced by more than $66 million.

For 96 years, Emco has been one of Canada's leading distributors and manufacturers of building products for the residential, commercial and industrial construction markets. We have come a long way to improving our results and moving towards our targets.

Our strength is our employees

From coast to coast, our strength and uniqueness is our people. Some of them appear on the pages of this annual report. They have responded with unprecedented commitment to meeting the company's objectives. There is a growing pride in our achievements. As we continue to pursue our targets, our core values remain unchanged: trust, respect, teamwork and responsibility govern the way we do business.

As we begin 2002, we are definitely heading in the right direction.

> "Our strength and uniqueness is really our employees. When people own their objectives, they're committed to meeting them."

— Richard J. Fantham, *President Wholesale Distribution*

> along the way

Distribution: delivering results

Distribution is a leading wholesaler in Canada and master distributor across North America.

> **Improving customer service.** We continue to focus on having the right product in the right place at the right time, to continually exceed the expectations of our customers.

> **Developing our employees.** We are providing training, increasing the level of knowledge and expertise and instilling a winning attitude in every one of our employees.

> **Delivering results.** There is a commitment to achieving Emco's objectives, improving operating performance and growing our business.

Plumbing

Emco is Canada's largest wholesale distributor of plumbing and hydronic heating products. Through a national network of branches, Emco supplies brand name plumbing products, bathware fixtures and accessories, pipe and fittings, and other related products to residential and commercial contractors.

Manufacturers are increasingly turning to wholesalers like Emco to handle the marketing of their products as well as the training of qualified personnel to meet customer needs.

Residential and non-residential new construction and renovation are the largest markets for plumbing and hydronic heating products. Emco is targeting growth by focusing on the specific needs of the trade contractors and renovators.

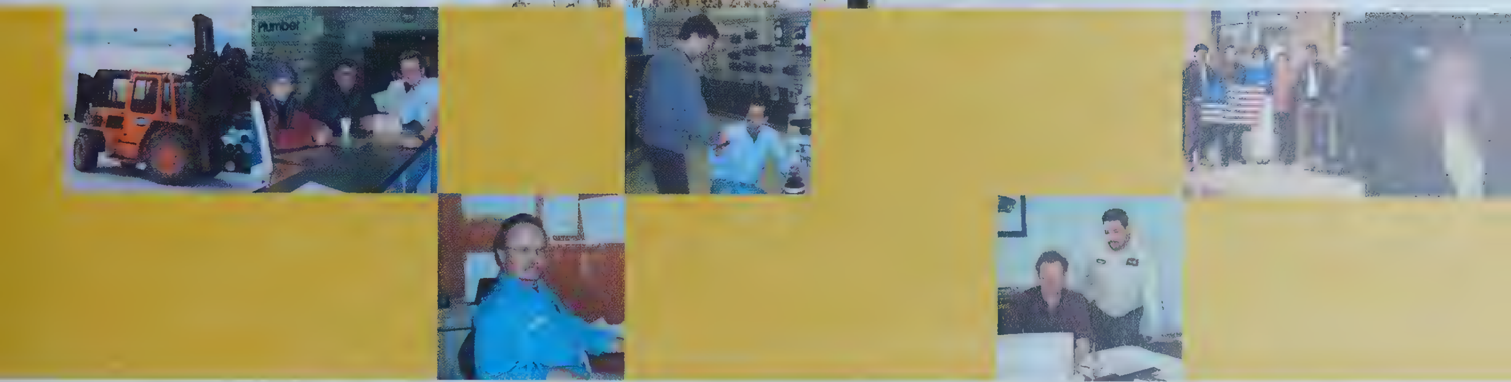
Showrooms in major urban centres display brand name products to assist contractors' customers in making product selections.

Waterworks

As waterworks distributors, we stock and supply a wide range of products for contractors who install new water and sewage infrastructure. We also supply municipalities that must maintain and replace their existing infrastructures through public works programs. We are recognized as industry leaders in providing technical support and service.

An increasing focus on water quality is expanding the market for waterworks products to update and replace the infrastructure in many municipalities. Product focus is shifting industry-wide to high density polyethylene (HDPE) pipe. This trend, combined with new geotextile products and meters, is providing growth opportunities.

Emco opened dedicated waterworks branches in Ontario and Alberta in 2001, responding to customer demand for specialists in those areas who can provide expert advice on product features as well as accurate quantity estimates. Similar dedicated branches exist in other urban centres across Canada and more are planned in the future.



Industrial

Emco is a major Canadian wholesaler of carbon steel, stainless steel and specialty alloy pipe, valves and fittings (PVF) to energy and resources customers in five sectors: oil and gas, pulp and paper, mining and smelting, offshore, power and co-generation.

Emco continues to develop strategic partnerships with key national industrial accounts by offering customers a variety of solutions in the management of their entire maintenance, repair and operating (M.R.O.) inventory. Our ability to control the costs of acquiring, storing and installing these products for our customers is an integral part of the value and service we provide.

Emco is a market leader in wholesale distribution to the offshore oil and gas sector in eastern Canada. Our location, expertise and vendor network all contribute to our well recognized and unique international project management ability. Customers increasingly look to us for strategic project management, as well as the supply of products.

As a master distributor, Emco supplies high quality industrial products to wholesalers in Canada under the name CCTF and in the U.S. as Pro-Fit Piping Components, Inc.. We are developing a North American strategy to source and deliver industrial pipe, valves, flanges and fittings to all of our customers in the most efficient way.

> "We produce products of the highest quality with speed, spirit and innovation. Our objective continues to be one of relentless improvement."

— John Wm. Ricketts, *President Emco Building Products Ltd.*

Manufacturing: building excitement

Our manufacturing facilities produce durable, long lasting, high performance products.

Building Products

Building Products is a leading manufacturer that has been producing quality roofing and wood fibre products for renovation and new construction for generations. While offering a complete line for residential roofing, its slate of products is moving decidedly upscale, with high-end laminate, slate-style and other architectural shingles. Other residential products include ceiling tiles as well as structural, acoustical and insulating wall panels.

Building Products also supplies roofing paper and industrial asphalt to other manufacturers on an OEM (original equipment manufacturer) basis and we are increasing our presence in the industrial/commercial roofing market.

The capacity of our manufacturing capabilities has been increased significantly through continued capital investment in our plants in Edmonton, Alberta, and LaSalle and Pont-Rouge, Québec, through the acquisition of North American Felt in Joliette, Québec and through an alliance with Atlas Roofing Corporation. And the Company continues to look for opportunities to enter alliances with other manufacturers to further increase capacity and flexibility.

Over the past year, Building Products has entered into a number of strategic alliances as well as joint manufacturing, co-branding, private label and technology exchange agreements.

Early in 2001, Building Products entered an alliance with Atlas Roofing Corporation of Meridian, Mississippi, to produce non-laminate architectural shingles using special overlay technology from Atlas' facility in Quakertown, Pennsylvania. Continued investment in North American Felt will ensure that Building Products remains a premier supplier of asphalt felt in Eastern Canada and the U.S..

Improvements at the Edmonton and LaSalle manufacturing facilities resulted in more capacity and improved efficiency. Increased output has not come at the expense of the environment as energy consumption was reduced at all plants.

Building a virtual roof

*The **DreamRoofs** site has garnered numerous international awards, including the prestigious "Surfers Choice" award, the highly-rated "Top Site" award from the Webmaster Central (Germany), and the renowned "Maestro Award of Excellence" (the Netherlands). The website has also been named a "Learning Fountain Site", recognizing helpfulness to visitors, learning potential and sense of community.*

> "Metcraft's high quality is a reflection of the outstanding craftsmanship of its employees."

— **Richard Young,** ***President Metcraft Inc.***

Increased sales of premium shingles such as the new ECLIPSE and HARMONY laminates resulted in higher product margins for Emco and better returns for its contractor customers. Building Products' plans for 2002 include a focus on new marketing programs, continued expansion into U.S. markets and an increasing focus on the industrial/commercial market.

Launch of new website powers Emco's presence in the Internet marketplace

In May 2001, Building Products launched a new, more powerful version of its corporate web site, Emcobp.com, and a residential roofing resource for consumers, DreamRoofs.com. The multimedia-rich DreamRoofs.com offers North American homeowners everything from interactive design tools to a dealer locator.

Metcraft

Metcraft is a unique division within the Emco family that manufactures high quality stainless steel products for the food service and institutional market segments.

POWER SOAK represents approximately two-thirds of Metcraft's sales and is the leading pot-and-pan washing system used by restaurants, grocery chains and institutions.

Metcraft received approval in 2001 from two leading international quick-serve restaurant chains to distribute POWER SOAK worldwide.

Metcraft is positioning itself for growth into European markets with a U.K. partner to assist with manufacturing (assembly) and distribution of POWER SOAK in the U.K. and Ireland. Metcraft is currently looking for other European distributors.

The markets for securityware and other related stainless steel plumbing products, designed for institutional or commercial application, continue to expand.

A new laser cutter installed early in the year streamlined the manufacturing process and reduced operating costs for all stainless steel products.

> the road ahead

Emco is on a journey of continuous improvement. In 2001, we accomplished a great deal but there are opportunities for us to do even better, to grow and to produce stronger financial results.

Our financial targets are set for the medium and long term. They are goals that will bring an increased return on equity for our shareholders. We have a clear vision of how we can meet these targets.

Our businesses operate in expanding markets, we sell brand name products, we have efficient manufacturing and distribution processes and we have the financial strength to take advantage of new opportunities.

Above all, we have the people who can make it happen. Employees who are committed to making Emco successful in every way.

> "We continue to identify new opportunities to enhance shareholder value."

— **Douglas E. Speers,** ***President and Chief Executive Officer***

2002 Objectives

> Improve profitability through enhanced product margins

Expand the product margin enhancement programs within Distribution, increase sales of high-end architectural roofing shingles in Building Products and drive efficiencies in all of Emco's manufacturing processes.

> Improve profitability through reduced expenses

Achieve further reductions in expenses within Distribution in Canada by continuing the move to smaller facilities that are focused on specific customer categories and continue to focus on under-performing assets.

> Strengthen Emco's financial position

Improve the debt to equity ratio further through higher operating earnings and strong working capital management.

> Sales growth

Grow sales revenues through specific programs that have been designed to increase volumes in Distribution and take advantage of opportunities in new markets in both Distribution and Manufacturing.

Emco in your community

Emco is active in the communities in which we do business, supporting many community programs and charitable organizations through local fundraising projects.

Since 1992, Emco has been a national sponsor of Habitat for Humanity Canada, providing financial support and building materials. Emco employees frequently contribute their time and energy to the construction of Habitat homes.

Emco also supports several national charity programs including the United Way/Centraide.

< Team British Columbia 2001/2002

Team Alberta 2001/2002 >

Children's Care at London Health Sciences Centre >

Emco's Championship Ball Team >

< Habitat for Humanity >

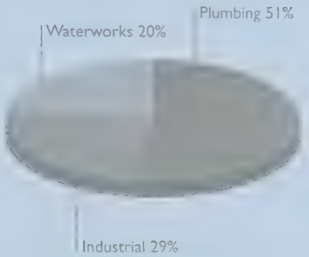
> 2001 Management's Discussion & Analysis

Emco Limited carries on business through two distinct segments, Distribution and Manufacturing. Both segments make sales mainly to customers engaged in the construction industry in Canada.

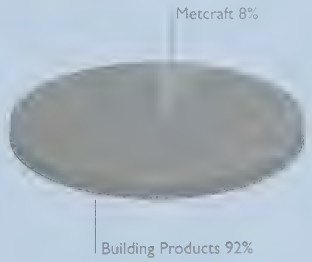
Within the Distribution segment, Emco is a leading Canadian wholesale distributor of: plumbing (including hydronic heating and heating, ventilating and air conditioning (HVAC)); waterworks; and industrial products, namely industrial pipe, valves, flanges and fittings (PVF). Also, Emco is a master distributor of industrial products in North America. The industrial category presented in the pie chart combines sales of these products made via both wholesale and master distribution.

The Manufacturing segment consists of Emco Building Products Ltd. (Building Products) and Metcraft Inc. (Metcraft). Building Products is a leading manufacturer and distributor of building materials for the home improvement and building construction markets across Canada and in the northern U.S.. It consists of the roofing and wood fibre operations and a 50% ownership in North American Felt, a manufacturer of asphalt felt. Metcraft is a manufacturer of stainless steel products mainly for the food service industry and penal institutions.

Distribution
Sales as a % of Total Segment



Manufacturing
Sales as a % of Total Segment



> An Overview of 2001

Emco's financial results made a strong recovery in 2001 after a disappointing year in 2000. In the fall of 2000, management set specific financial objectives for 2001 that focused on delivering increases in net earnings and net cash flow. By year end, virtually all of these objectives had been achieved, and in many cases, were exceeded. In addition to the short-term objectives for 2001, management set key medium-term financial targets for the Company and for each business segment.

The substantial improvement in Emco's operating earnings in 2001 can be attributed mainly to:
- > higher product margins (sales less cost of sales, expressed as a percent of sales) within Building Products and the Distribution segment.
- > strong sales and operating earnings by Building Products' asphalt felt manufacturer, North American Felt.
- > reductions in operating expenses within Distribution in Canada.
- > increases in industry demand for goods manufactured by Building Products.

The Company's financial position improved dramatically in 2001. Total net cash generation for the year of $70.0 million allowed for a reduction in long-term debt of more than $66.0 million.

These substantial improvements in financial performance were achieved despite no major increase in total volume. In fact, sales volume declined in both Distribution in Canada and in Manufacturing at Metcraft. At the beginning of 2001, programs were put in place to improve product margins on sales of plumbing products. As a result, Distribution turned down some low margin business in Canada and plumbing sales volumes were lower in some regions of the country. The introduction of new sales growth programs for 2002 is expected to grow volume at higher levels of product margins.

Sales for Metcraft, Emco's manufacturer of stainless steel products in the U.S., also declined in 2001 as a number of their customers deferred discretionary capital expenditures in the wake of a slower U.S. economy. Metcraft did receive corporate approvals from two major quick serve restaurant chains late in 2001 that should lead to increased sales of its POWER SOAK® product in 2002.

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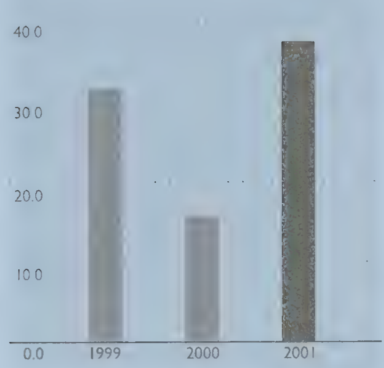
> The Financial Highlights of 2001

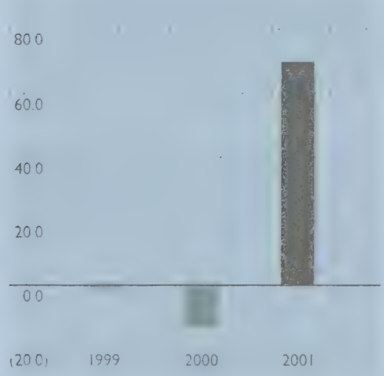
Emco's consolidated net earnings for 2001 were $9.6 million or $0.51 diluted earnings per share compared to net earnings of $1.8 million or $0.01 per share in 2000. Excluding gains on the disposals of property and income tax adjustments recorded in both years, earnings per share in 2001 were $0.79 higher than the prior year.

The earnings per share for 2001 included gains on the disposal of property amounting to $0.8 million before tax or $0.03 per share and the recognition of reductions in future income taxes amounting to $1.0 million or $0.06 per share. The earnings per share reported in 2000 included gains on the disposals of property amounting to $3.0 million before tax or $0.12 per share and the recognition of a reduction in future income taxes amounting to $4.0 million or $0.26 per share.

Operating Earnings
($ millions)



Net Cash Flow
($ millions)



Sales for the year ended December 31, 2001 were $1.26 billion, up 1.6% from $1.25 billion for the year 2000. Sales in 2001 for the Distribution segment declined by 3.2%, while sales for the Manufacturing segment increased by 19.5%.

Total operating earnings for the year of $38.0 million more than doubled from the previous year figure of $17.4 million. The Distribution segment increased its operating earnings by $5.9 million, while the Manufacturing segment increased its operating earnings by $17.7 million. Expenses categorized as "Corporate and other" increased by $3.1 million. While ongoing corporate office expenses were flat to 2000, other expenses increased because of the settlement of lawsuits from prior years and the incurrence of some non-recurring write-offs of deferred charges.

Distribution's operating earnings increased by approximately 41% to $20.4 million, due to better product margins in both Canada and the U.S. and lower expenses for the segment in Canada.

The Manufacturing segment operating earnings for the year increased by approximately 183% over 2000 to $27.4 million. This increase came from a significant improvement in results for Building Products. Increases in selling prices for roofing products, together with a stabilization of raw material costs, brought product margins to a more normal historical level in 2001. Demand for these products increased in 2001 in Canada after an industry-wide decline in 2000. In addition, North American Felt, Emco's manufacturer of asphalt felt that was acquired in September 2000, contributed an incremental $6.6 million to operating earnings in 2001. Offsetting the improved results for Building Products, Metcraft experienced a decline in operating earnings as sales fell by 15% compared to 2000.

Emco Limited achieved a dramatic improvement in net cash flow in 2001, generating $70.0 million, an increase of more than $85.0 million from a usage of $15.2 million in 2000. Increased cash from earnings and improvements in asset turnover, resulting largely from reductions in Distribution inventories, were the main contributors. Emco's long-term debt was reduced by $66.1 million during the year. The Company's debt to equity ratio was 0.9:1 at December 31, 2001 down from 1.4:1 at the start of the year.

Emco's interest expense for 2001 was $3.6 million lower than the previous year as a result of lower average debt levels and lower average borrowing rates during the year, especially during the last six months.

> Management's Financial Targets

Corporate Targets

Emco's management intends to achieve an above average return on equity for its shareholders and the dramatic change initiatives undertaken since mid-1999 were designed to help produce these results. These initiatives included the repurchases of shares in 1999 and 2000, the reduction in corporate office expense levels and the focus on improvements to Emco's base businesses. The debt incurred for the share repurchases was repaid by the end of 2001, somewhat later than anticipated due to the economic slowdown. Corporate office expenses were lower in each of the three years beginning in 1998 and were flat in 2001. Operating earnings generated by Emco's base businesses began to improve in 2001, as shown below:

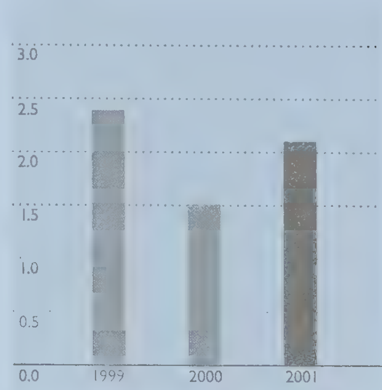
		2000	**2001**	
Return on sales	– Distribution	1.5	2.2	Operating earnings as a percent of sales.
	– Manufacturing	3.7	8.7	
Return on net investment		5.7	11.9	Operating earnings as a percent of average net business investment.
Asset turnover	– Distribution	3.4	3.6	Return on net investment divided by return on sales.
	– Manufacturing	1.8	2.2	
Debt to equity ratio		1.4	0.9	Debt includes long-term debt and subordinated debentures.
Return on equity		1.0	5.4	Net earnings as a percent of shareholders' equity.
Sales growth		0.1	1.6	Increase in consolidated sales, as a percent, year over year.

The repurchases of common shares in 1999 and 2000 had an accretive effect on earnings per share in 2001. The reduction in debt in 2001 has substantially reduced financial risk for the Company.

Actions taken by management in 2001 to improve product mix, increase product margins and reduce overall operating expenses will enhance operating earnings in 2002. This improvement, combined with higher asset turnover, will result in a higher return on equity for Emco shareholders. Management believes that the Company is on the right track and that there are opportunities for significant additional improvements in results.

At December 31, 2001, Emco's common shares closed at $6.30 on the Toronto Stock Exchange, compared to the book value of those shares on that date of $8.37. During 2001, the total market capitalization of the common shares increased by $46.1 million to $98.4 million.

Distribution
Operating Earnings as a % of Sales



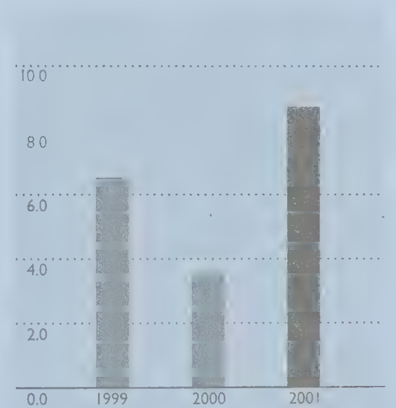
Segment Targets

Emco's management has set medium-term financial targets for each of its segments. The targets for each segment provide the foundation for the achievement of management's corporate targets. The targets for Distribution and Manufacturing for return on sales (operating earnings as a percent of sales) are 6% and 12% respectively. Management also has targets for each segment for return on net investment and sales growth. Significant progress was made towards meeting these targets during 2001. Management believes that these targets are achievable given the capabilities of each segment and industry characteristics.

Distribution will achieve its return on sales target by continuing to enhance product margins, lowering expenses and growing sales revenues. Its target for asset turnover will be achieved by further increasing efficiencies in inventory management and by improving returns on under-performing assets.

Manufacturing will achieve its financial targets by introducing new products which will increase exports to the U.S. and by making further improvements to manufacturing efficiency and fully utilizing available plant capacity.

Manufacturing
Operating Earnings as a % of Sales



Business Risks

As a distributor and manufacturer of products for the construction industry, the Company faces a number of business risks. These risks are discussed as part of the analysis of each business segment.

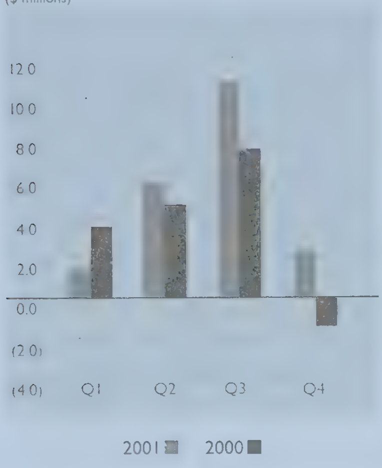
Key business risks affecting overall market demand, and hence Emco's sales volumes, include the levels of new construction activity (residential, commercial and industrial), the amount of activity in the resource sector (including petroleum, gas and mining), infrastructure spending related to waterworks and the level of repair and renovation activity, mainly in Canada. The direction of interest rates can affect levels of construction activity. The general strength of the economy can also affect the levels of construction activity in Canada.

The rate of exchange between the Canadian and U.S. currencies may influence the level of export sales to the U.S. and the volume of products that are exported to Canada by U.S. building materials manufacturers. Major fluctuations in the cost of raw materials, such as asphalt, can affect the product margins realized by Building Products to the extent that cost increases cannot be passed on in the selling price of its products on a timely basis. Similarly, product margins can be enhanced when raw material costs decline. Finally, the Company's continued ability to manage its costs of production and distribution directly affects the results of operations.

Results by segment

($ Thousands)	**2001**			**2000**		
	Sales	Operating Earnings	Identifiable Assets	Sales	Operating Earnings	Identifiable Assets
Distribution	$ 949,978	20,402	351,818	$ 981,725	14,511	379,989
Manufacturing	314,511	27,396	170,166	263,293	9,674	181,466
Corporate and other		(9,804)	23,037		(6,742)	28,422
	$ 1,264,489	37,994	545,021	$ 1,245,018	17,443	589,877

Distribution
Operating Earnings by Quarter
($ millions)



> Distribution

Emco is a leading Canadian wholesale distributor of: plumbing (including hydronic heating and heating, ventilating and air conditioning (HVAC)); waterworks; and industrial products, namely industrial pipe, valves, flanges and fittings (PVF) in Canada. Also, Emco is a master distributor of industrial products in North America. The industrial category combines sales of these products made via both wholesale and master distribution.

The Distribution segment achieved a significant improvement in operating earnings in 2001, as illustrated in the following table.

	Sales		**Operating Earnings**	
($ Thousands)	2001	2000	2001	2000
Q1	$ 208,113	209,765	$ 1,485	3,654
Q2	245,305	249,382	5,826	4,874
Q3	261,641	276,111	10,945	7,417
Q4	234,919	246,467	2,146	(1,434)
	$ 949,978	981,725	$ 20,402	14,511

Distribution's operating earnings improved in 2001 over 2000 in each of the last three quarters. Management accomplished its short-term objectives to increase product margins in all regions and lower expenses in Canada. Operating earnings relating to the Canadian wholesale business were reduced in the year by $5.2 million in losses on sales of surplus inventory. The Company has incurred severance and other costs of $1.8 million in the fourth quarter of 2001 to downsize the Richmond, British Columbia facility and move certain functions to smaller locations.

Cash flows generated by the segment increased substantially in the year mainly because of improvements in working capital management.

Management's plan to increase focus on enhancing product margins in Canada in 2001 caused Distribution to turn down some sales at low margins. Distribution's total sales were 3.2% below 2000 levels with sales in Canada 3.7% lower in the year and sales in the U.S. higher by 3.5%. According to the Canadian Institute of Plumbing and Heating (CIPH), total Canadian sales by wholesalers in the industry increased by 3.3% in 2001 over the previous year.

Management's objective to increase product margins in Canada includes a number of specific pricing and product programs on both a national and regional level. The programs include the centralization of pricing authority with sales management, new pricing policies related to special orders and cash sales, more group purchasing of product and the use of measurements to identify sales opportunities by customer. These programs are proving to be successful as a trend of increasing product margins began to be realized in the last six months of the year. In the fourth quarter of 2001, product margins for Distribution were improving in all regions.

Another of management's key objectives was to improve Distribution's results in Canada by lowering expenses. This objective was also met in the year as lower expenses in Canada contributed $8.8 million to the improvement in operating earnings. The increased use of technology in transaction processing and new processes in supply chain management that were introduced during the last three years were key factors leading to lower overall expenses. Compensation, freight, travel, information systems and professional fees were all lower in the year. The total number of full-time employees in Distribution in Canada at the end of 2001 was 8.9% lower than a year earlier and the cost of casual and part-time help was also lower. Management's decision to sell some facilities and lease them back has contributed to the increase in cash flow but has resulted in higher occupancy costs.

Management continued to focus on underperforming branches in 2001, closing or consolidating six facilities in the year. Operating performance in some of these branches has improved to satisfactory levels. A focus on improvements to the results for underperforming branches will continue in 2002.

A third objective for Distribution was to achieve a significant reduction in inventory levels. Actual reductions in 2001 in Canada exceeded management's goals while customer fill rates improved during the year. The expanded use of the Distribution Requirements Planning (DRP) system and new reporting tools to better manage purchasing, were introduced in the first quarter of the year. These actions, combined with disposals of surplus stock, produced a net reduction in inventories in Canada of $28.0 million in 2001.

The introduction of the DRP system performed as planned establishing the minimum quantities of the right inventory to have in stock and identifying surplus items. Surplus items are defined to include products for which no order has been received in 12 months. Surplus products in Distribution's inventory were reduced from 9.2% at December 31, 2000 to 5.4% at December 31, 2001. This program generated additional cash flows of approximately $2.7 million in the year. The introduction of new inventory reporting processes will permit quicker identification of aging trends for products in stock.

In some Canadian markets, larger integrated facilities are being replaced by smaller separate branch facilities that are focused on specific customer segments. In the greater Toronto area, for example, a separate waterworks facility was opened in the fourth quarter of 2001. Three new branches to serve plumbing and energy and resources customers are scheduled for the first half of 2002. Similar changes will be completed in Vancouver and Montreal in 2002. Management expects these changes to lower supply chain costs and improve customer service.

In order to generate further increases in operating earnings and cash flows for Distribution in Canada, management has introduced a revised variable compensation program for employees. This program will promote and recognize significant contributions to improved results in 2002.

Plumbing

Plumbing is the largest product category within the Distribution segment. Plumbing and related products are sold mainly to plumbing and mechanical contractors across Canada. Plumbing products include brand name plumbing fixtures and accessories, pipe and related products. Sales of plumbing products are dependant mainly on the level of residential and commercial construction in Canada.

Canadian Housing Starts
(thousands)

Source: Statistics Canada

New residential construction in Canada, according to Canadian Mortgage and Housing Corporation (CMHC) increased 7.3% in 2001 over 2000. Total housing starts for the year were 162,700 compared to 151,700 in 2000. On a regional basis, housing starts increased more than 10% in Québec, Alberta and British Columbia. The level of new residential housing activity in Ontario, the country's largest market, was 2.5% higher than the previous year. The decline in mortgage interest rates during the second half of the year contributed to the strong housing market in the fourth quarter of 2001.

Emco's plumbing and HVAC sales in 2001 were 1.9% lower than the previous year, while total wholesaler sales in Canada, as reported by CIPH, increased 3.7%. Sales of plumbing products were lower in Ontario and western Canada, but were higher in Québec and Atlantic Canada. Product margins began to improve during the year because of actions taken by management and this has led to better operating earnings for Emco.

As discussed above, management turned down some sales at low margins. In addition, management decided, early in 2001, to exit unprofitable businesses, namely the HVAC business in Ontario and certain HVAC branches and the refrigeration business in British Columbia. In addition, some sales decline was related to increased competition from independent wholesalers in Ontario.

The economy in British Columbia (B.C.) slowed considerably in 1998 and 1999 but had been expected to make a recovery again beginning in 2000. Instead of recovering, however, economic activity in B.C. decreased further in 2000. The level of new residential construction in the province recovered somewhat in 2001 but was still 39% below 1997 levels. Emco's sales of plumbing and HVAC products in B.C. were 6% lower in 2001 than 2000. The province's economy is not expected to improve substantially in 2002, and management is taking the actions outlined below to lower its costs of operation in B.C..

A number of changes to Emco's supply chain have worked well, leading to lower expenses and improved inventory management. One aspect of these changes that has not delivered the planned results is the introduction of Distribution Centres.

Distribution opened one of its Distribution Centres (D.C.) in Richmond B.C. (a suburb of Vancouver) in 2000 to store and deliver products to customers more efficiently. A new warehouse management system was incorporated into the D.C.. During 2001, the facility in Richmond did function as expected consolidating in-bound shipments and cross-docking products, but did not lead to increased sales volumes and product margins. Consequently, management has initiated substantial changes to its supply chain structure in B.C..

Improved product margins, combined with lower operating costs and programs designed to grow sales volumes will combine to produce higher operating earnings from sales of plumbing products in 2002.

Waterworks

Emco is a leading distributor of waterworks products in Canada and the market for waterworks products is constantly expanding. Recent concerns about water quality have increased public awareness of the need to upgrade and improve the infrastructure. Installation of new infrastructure and the introduction of new products are also increasing demand.

[illegible] municipalities in constructing and maintaining the waterworks infrastructure. Emco also supplies other products such as meters, as well as specialty items such as high-density polyethylene [illegible]

In 2000, dramatic swings in polyvinylchloride (PVC) resin prices resulted in selling prices for waterworks products to increase substantially early in the year before falling again in the fourth quarter. Throughout 2001 these prices have remained significantly lower than 2000, leading to a reduction of [illegible]% in waterworks sales compared to the prior year. Waterworks businesses acquired by Emco in 1997 and 1998 have continued to perform extremely well and have generated higher [illegible]

In 2001 new dedicated waterworks branches were opened in the greater Toronto area and in Alberta to take advantage of the continued expansion of new residential construction in these regions. The Company plans to open additional branches in growth markets in western Canada in 2002.

Industrial

Wholesale sales of industrial products to energy and resource customers are made under the names Westburne Industrial Supply and Emco Distribution. Emco's master distribution is carried on under the name [illegible] in Canada and Pro-Fit Piping Components, Inc. in the U.S.

Sales to energy and resources customers in 2001 in Canada were at the same levels as 2000, as higher sales in the western provinces and in Atlantic Canada were offset by declines in Ontario and Quebec. Demand in western Canada has increased because of the higher levels of activity in the oil and gas sector. Management continues to expand and promote its expertise in managing the entire maintenance, repair and operating (M.R.O.) inventory for large national industrial accounts.

Emco's National Accounts Management program has a proven track record in large project management and logistics. Emco has been a supplier to several mega projects in Alberta and offshore in eastern Canada. The supply of products to a major project in Labrador in 2001 contributed to the increase in sales in Atlantic Canada. Several large projects in Alberta and additional offshore projects in eastern Canada are scheduled for commencement in 2002 and are expected to lead to increased demand for industrial PVF products.

Master distribution sales in the U.S. were up [illegible]% from the previous year. In 2001 the management of Emco's master distribution was consolidated on a North American basis to allow both [illegible] and Pro-Fit to benefit from combined strengths to create synergies for the total entity.

Outlook

The year 2001 ended with an increased number of building permits issued in Canada. In November the number of permits issued was [illegible]% higher than the same month in 2000. Housing starts in Canada were up [illegible]% over the prior year in the fourth quarter of 2001 according to CMHC and housing starts are expected to remain relatively strong in 2002. Continued low interest rates will be a positive factor contributing to increased activity in both residential and commercial construction. The economic slowdown in the U.S. is expected to impact the automotive industry in Ontario and hence the level of housing starts in that province.

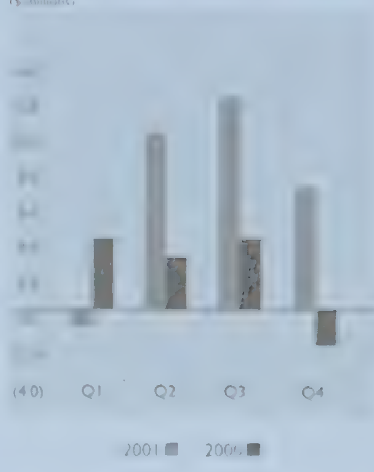
Manufacturing

Emco's Manufacturing segment includes Building Products (which was operated as a division up to the end of 2001 when the business was transferred to a wholly owned subsidiary, Emco Building Products Ltd.), and Mercraft Inc. (Mercraft). Approximately [illegible]% of the Manufacturing segment sales in 2001 related to Building Products, a manufacturer of residential and commercial roofing, wood fibre and coated paper products for the Canadian and U.S. markets. Approximately [illegible]% of Building Products' sales are made to the residential construction market, with approximately [illegible]% of the division's sales based on renovation activity. Mercraft is a U.S. manufacturer of security/ware [illegible]

As illustrated in the following table, the Manufacturing segment's operating earnings increased significantly in 2001.

	Sales		Operating Earnings	
($ Thousands)	2001	2000	2001	2000
Q1	$ 49,991	64,696	$ (1,270)	3,891
Q2	99,834	68,624	9,718	3,538
Q3	99,754	74,560	11,723	4,469
Q4	64,932	55,413	7,225	(2,224)
	$ 314,511	263,293	$ 27,396	9,674

Manufacturing
Operating Earnings by Quarter
($ millions)



Building Products

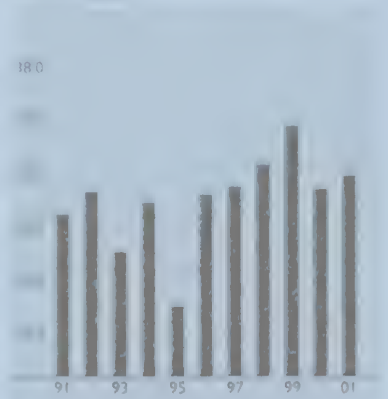
Building Products had a much improved year in 2001 as industry demand in Canada for roofing products was higher and product margins (sales less cost of sales, expressed as a percent of sales) improved to normal historical levels. Sales increases were also related to Emco's North American Felt manufacturing operation which was acquired in September 2000. Sales for the Company's wood fibre operations also increased in 2001. Building Products' export sales to the U.S., excluding North American Felt sales, were approximately 34% higher.

A number of factors affected the level of industry demand for roofing products in Canada in 2001. Industry shipments had fallen in 2000, particularly in the second and fourth quarters, as wet weather and early winter conditions had a significant effect on roofing activity in that year. Some of the pent-up industry demand from 2000 carried over to 2001. The level of renovation spending, generally, was higher in Canada in 2001. These factors caused sales volumes for the roofing industry to increase by 3.2% in 2001. Sales of roofing products were slow in the first quarter of 2001, because of changes to the normal customer winter booking program, but rebounded in the second quarter and continued to be strong during the balance of the year.

The Company increased selling prices for its roofing products during the first six months of 2001, raw material costs stabilized and changes in product mix were introduced. The combination of all of these factors resulted in product margins for the roofing business returning to normal levels in 2001.

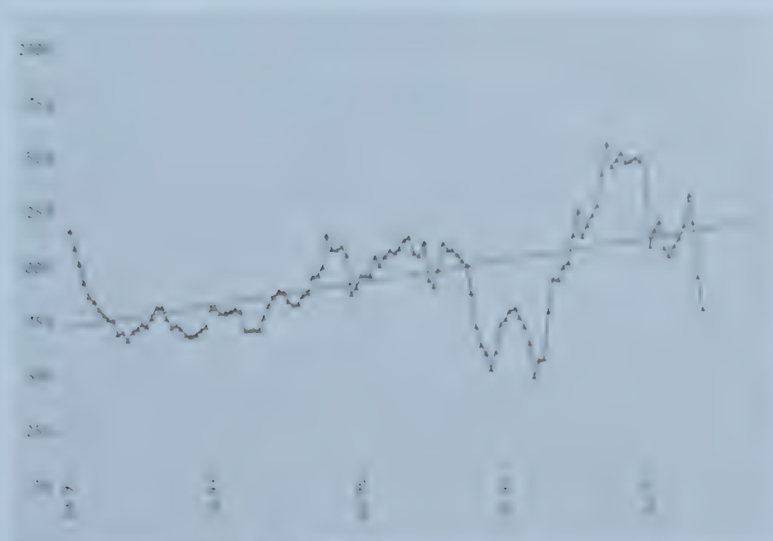
As noted above, product margins for 2001 were also higher because asphalt costs and other raw material costs stabilized in the year. In 1999 and 2000, the cost of asphalt had risen sharply and management was not able to increase the selling prices of Emco's roofing products in those years to recover all of the increases in the cost of asphalt and other raw material costs. The cost of asphalt trended down during the last half of 2001 and averaged approximately the same as 2000 for the full year.

Industry Shingle Demand in Canada
(millions of bundles)



Source: Statistics Canada

Relative Asphalt Costs



Relative Costs based on January 1997 = 100%

The costs of production for Building Products are affected by raw material and other costs besides asphalt. Natural gas and paper fibre are also significant costs incurred in the production of roofing and wood fibre products. The following table provides direction on the sensitivity of operating earnings in Building Products:

	Sensitivity	**Potential Impact**
Prices on all roofing products	1%	$1.9 million
Asphalt costs	$10 per short tonne	$2.0 million
Paper fibre costs	$10 per short tonne	$0.7 million

There are currently a number of opportunities for Emco to expand the market for its roofing products in North America. Based on the age of existing housing stock, the volume of roof replacements each year are expected to increase in Canada, and the continuation of low interest rates should also have a positive effect on the level of renovation activity. In addition to the market in Canada, the Company also views the northeastern U.S. roofing market as an opportunity to expand the sales of its products and the current exchange rate between the Canadian and U.S. dollar is benefiting the exports of products to that market.

Additionally, the market for roofing products in North America itself is fundamentally changing. Consumers are increasingly choosing architectural, high-end roofing products as opposed to standard products. The effect of this change is to not only increase demand for higher-margin products, but also to shorten the expected re-roofing cycle. In response to these market place changes, Building Products has been realigning its product offering. New laminated, slate-style and other architectural shingles, as well as a number of specialty shingles, have been introduced. Warranty, merchandising and incentive programs have been developed at the same time to encourage consumers and home builders to select these high-end products.

Building Products has also undertaken aggressive productivity improvements and expansion of capacity in its manufacturing facilities to reduce costs. In September 2000, Emco acquired an asphalt roofing felt manufacturing operation in Joliette Québec. In addition to expanding the capacity for asphalt felt production, this acquisition has also created additional capacity in the LaSalle manufacturing facility for the production of other value-added roofing products. The acquired business, now operating as North American Felt, had been supplying Building Products with high quality asphalt felt for many years to supplement the Company's own production. Sales and product pricing were strong in 2001 with a majority of the sales made to U.S. customers. Management is expecting some decline in sales volumes in 2002.

Under terms of the purchase agreement for North American Felt, Emco acquired an initial ownership of 50% and agreed to pay for the acquisition over a four year period. Emco's ownership will increase to 75% in August 2003 and to 100% in August 2004.

Emco's wood fibre manufacturing facility in Pont Rouge Québec produces structural board, roof insulation, ceiling tiles and other specialty products such as high performance exterior panels. Approximately 42% of the wood fibre's total sales are made to the U.S.. Sales of specialty products and increased exports to the U.S. were the main contributors to an increase in wood fibre sales of nearly 10% for 2001 over the prior year. Selling prices for some of Building Products key wood fibre products did not increase in 2001 because of competitive pressures. This factor, combined with higher energy costs caused overall product margins for this business to fall below 2000 levels.

The wood fibre manufacturing operation is a large consumer of natural gas. The cost of natural gas used in production rose dramatically in 2000. Management fixed its cost of natural gas under supply contracts which are due to mature in June 2002. Additional capital was invested in wood fibre's operations in 2001 to reduce natural gas consumption and these expenditures have resulted in increases in plant efficiency. Management expects increased operating earnings from the wood fibre operations in 2002 because of actions taken to lower the cost of production and improve sales mix.

Metcraft Inc.

Metcraft manufactures securityware for the institutional market in North America, POWER SOAK, a high efficiency pot washing system used by quick serve restaurant chains, supermarkets and other commercial businesses in the food industry in North America and the United Kingdom, and other custom fabricated stainless steel products. These quality products are manufactured out of a single facility in Grandview Missouri.

Metcraft's sales in 2001 in total were lower than the previous year as some POWER SOAK customers, faced with a slowing economy in the U.S. and uncertainty following September 11, 2001, chose to defer capital expenditures. The POWER SOAK equipment is a labour saving system that typically provides a very quick pay back for Metcraft's customers, however, its purchase by these customers is discretionary. Sales of POWER SOAK were 5.4% lower than 2000 levels. A reduction

in sales volumes and the change in product mix, together with additional selling costs and higher labour and raw material steel costs, were key factors leading to a reduction in Metcraft's operating earnings for 2001.

Despite the lower sales volumes for POWER SOAK, Metcraft was successful in obtaining corporate approval from the two leading international quick serve restaurant chains and now has the approval of all the major restaurant chains in this industry. As U.S. economic activity increases, management expects continued promotion of POWER SOAK to franchisees of the major quick serve restaurants, grocery and supermarket chains and other new markets will result in higher sales volumes and an improvement in sales mix in 2002.

Metcraft extended its licensing agreement to manufacture and sell POWER SOAK beyond North America in 1999 and has been establishing a market for this product in Europe. Initial sales are very encouraging and management expects sales volumes to grow as it further develops this market.

Outlook

Levels of renovation spending and new residential construction affect the sales volumes for Building Products. CMHC's most recent forecast of renovation spending in Canada suggests growth of 4.2% in 2002. This rate of growth reflects a continuation of the trend of increased renovation spending in recent years. A continuation of relatively low interest rates will be a positive factor towards further growth in this sector.

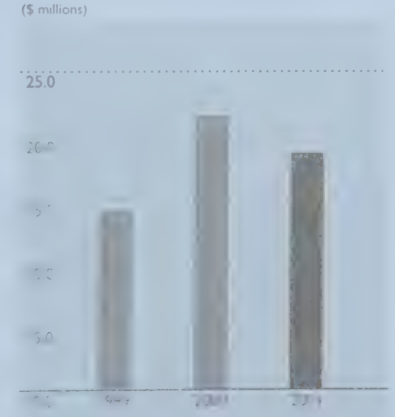
The levels of exchange between the Canadian and U.S. dollar also affect the volume of Building Products' export sales to the U.S.. A continuation of the rate of exchange in effect at December 31, 2001 will contribute to continued growth in exports of roofing and wood fibre products to northern U.S. customers.

As stated above, Metcraft's sales volumes in 2001 were lower than 2000 as many customers of its POWER SOAK products elected to defer discretionary capital spending due to the weak U.S. economy. The recovery in the U.S. economy that is expected in the last half of 2002 should lead to increased sales volumes for Metcraft.

> Interest and other expense

Interest and other expense for 2001 was $19.1 million, a decrease of $3.4 million from $22.5 million in 2000. Interest and other expense includes interest on long-term debt and on subordinated debentures and amortization of debt financing costs. The reductions in interest expense resulted from lower debt levels during the year and from lower borrowing rates.

Interest Expense
($ millions)



Emco's all-in cost of borrowing for floating rate debt is a combination of prevailing money market rates and the spreads charged by its lenders. The predominant method of borrowing for Emco's floating rate debt is Bankers Acceptances and this rate averaged 4.0% in 2001 compared to 5.4% in the prior year. The new lending facility that was put in place in November 2000 contained lower margins or spreads than the previous facility contributing to lower borrowing rates in 2001. In addition, Emco's improved results during 2001 qualified the Company for a reduction in spread beginning in the fourth quarter of the year. The base rate was further reduced on February 1, 2002 based on the final 2001 financial results. As a condition of obtaining the new lending facility in November 2000, Emco agreed to enter into a five year interest rate swap agreement on a notional principal amount of $75 million that fixes the rate of borrowing on that amount at 6.30%.

In April 2002, the outstanding balance of approximately $31.2 million of the 7$\frac{1}{4}$% subordinated debentures are scheduled for retirement. Management has reserved funds under its long-term debt facility to retire these debentures. The interest rate on the funds used to retire the debentures will be 3.9%, based on base rates and spreads in effect at December 31, 2001, contributing to a further reduction in interest expense in 2002.

> Income taxes

Emco provides for income taxes on earnings from its Canadian and U.S. businesses based on current statutory rates. The combined effective tax rate (as explained more fully in note 11 to Emco's consolidated financial statements for 2001) differs from these statutory rates because of the effect of various permanent differences between accounting and taxable income.

Future income taxes, arising on certain temporary differences between accounting and taxable income, are recorded using the asset and liability method. A key feature of this method is that the balance sheet amounts at any point in time are based on the future income tax rates that are expected to apply when those temporary differences will become taxable. Adjustments,

therefore, must be made to the balance sheet whenever there is a change in future expected rates. Canadian generally accepted accounting principles (GAAP) requires that these adjustments be reflected in income tax expense in the accounting period in which the tax laws have been substantively enacted.

During 2001, draft legislation was introduced by certain provincial governments to lower income tax rates and the effect of these rate reductions has been reflected during the year. In 2000, draft legislation was introduced to lower Canadian federal income tax rates and the effect of those rate reductions was reflected in that year. Adjustments to the Company's liability for future income taxes, as a result of lower rates, had the effect of reducing income tax expense by $1.0 million in 2001 and by $4.0 million in 2000.

Emco's provision for income taxes in future years will be based on the lower rates in effect as a result of the legislated changes outlined above unless subsequent legislation is enacted to increase rates. In 2002, Emco's expected statutory rate will be 38.0%.

> Potential Impact of Changes in Accounting Policies Subsequent to December 31, 2001 (as described in note 19 to the consolidated financial statements)

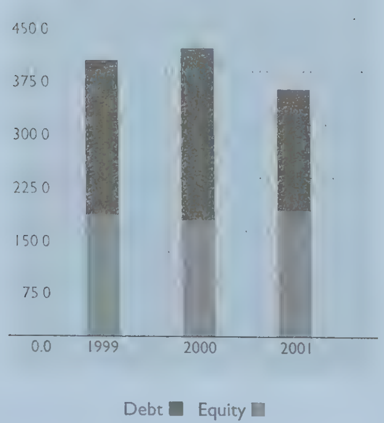
Effective in 2002, Canadian GAAP as they apply to goodwill have changed, as more fully described in note 19 to the consolidated financial statements. Emco recorded amortization of goodwill as an expense in the amount of $0.8 million in 2001 and $0.8 million in 2000. Under the new GAAP, the Company will no longer record amortization of goodwill but will apply an impairment test on an annual basis.

New GAAP for certain stock-based transactions will require the accrual and amortization of compensation costs associated with stock appreciation rights over the vesting period. These changes become effective January 1, 2002 and will be applied to awards granted on or after that date.

Changes in GAAP establish new criteria for hedge accounting and will apply to all hedging relationships in effect on or after January 1, 2003. Management will review the impact of the transitional provisions of these changes for purposes of applying them effective January 1, 2003.

> Consolidated Financial Position

Total Debt and Total Capital
($ millions)



Emco's financial position is much stronger at the end of 2001 as a result of increasing net earnings, improving working capital management and reducing long-term debt.

Emco's current ratio was 2.23:1 at December 31, 2001 compared to 2.75:1 at December 31, 2000. During 2001, current assets were reduced by $38.7 million with the majority of the cash generated by this reduction used to reduce long-term debt. The ratio of total debt to total capital has improved to 0.48:1 at December 31, 2001 compared to 0.59:1 at December 31, 2000.

Total assets as of December 31, 2001 have been reduced by $44.9 million from a year earlier, as the Company continued its drive to improve the quality of its working capital in 2001. Accounts receivable at the end of the year were $11.1 million lower than a year earlier and inventory levels decreased by $27.8 million.

Days sales outstanding at December 31, 2001 decreased to 46 days from 48 days a year earlier. Consolidated bad debt expense remained at a very low level for the year at approximately 0.1% of sales. Emco manages its investment in accounts receivable through a National Credit Committee which establishes annual targets for bad debt expense and the quality of outstanding accounts.

The rate of inventory turns improved significantly to 4.6 turns in 2001 compared to 4.1 turns in 2000. Management set aggressive inventory reduction targets for Distribution in Canada for 2001 and these targets were exceeded in the year.

Long-term debt levels, under the credit facility, were reduced significantly from $180.7 million at the end of 2000 to $114.6 million at December 31, 2001.

Shareholders' equity, which includes the equity component of the $6\frac{1}{2}$% convertible unsecured subordinated debentures, increased by a net amount of $11.4 million in 2001.

In November 2000, the Company completed a new five-year bank financing with Bank of America Canada (now Bank of America, National Association). In January 2001, the Bank of America Canada completed a syndication of the credit facility whereby six additional lenders joined to become part of the lending group. The credit facility is scheduled to mature in November 2005. The facility provides up to $325.0 million to finance Emco's ongoing working capital

and capital expenditure needs. It consists of a revolving loan of up to $300.0 million secured by the Company's trade accounts receivable, inventories and long-term assets other than property, plant and equipment. The facility also provides for a capital expenditure term loan of up to $25.0 million that may be used to finance a portion of new equipment purchased by the Company. Under the terms of the credit agreement, no financial covenants apply providing Emco meets certain minimum borrowing base availability requirements. At December 31, 2001, unutilized availability, before the reserve for the retirement of the $7\frac{1}{4}\%$ subordinated debentures, amounted to $88.3 million.

Emco's current credit facility is an asset-based lending arrangement under which the amount of borrowing capacity during the year is mainly dependent upon the levels of the Company's inventories on hand and the outstanding trade accounts receivable. With the seasonality of Emco's businesses, this borrowing capacity is at its lowest level during the winter months and reaches its peak during the third and fourth quarters of the year. Management believes this facility provides sufficient borrowing capacity to finance ongoing working capital needs, retire the $7\frac{1}{4}\%$ subordinated debentures and fund the Company's planned capital expenditures for 2002.

The balance of the $7\frac{1}{4}\%$ subordinated debentures outstanding at December 31, 2001 was $31.2 million. The debentures are due to be retired on April 30, 2002. Under the current credit agreement, the Company is permitted to repurchase a portion of these debentures in the market. During the year, the Company did repurchase $1.1 million of these debentures for a total cash consideration of slightly less than par. Under the terms of the credit agreement, a reserve against the available borrowing base has been building on a monthly basis and is setting aside funds in an amount that will be sufficient to retire the balance of the $7\frac{1}{4}\%$ debentures at maturity. Management intends to fund the retirement of these debentures at maturity by drawing on its long-term credit facility.

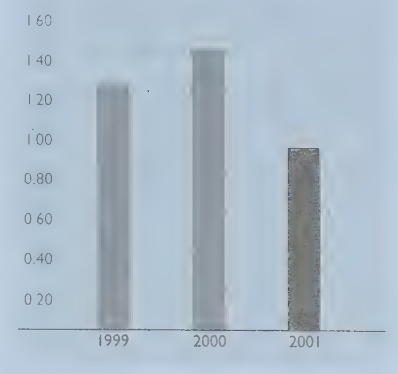
The principal amount of $69.1 million of $6\frac{1}{2}\%$ convertible unsecured subordinated debentures remained outstanding at December 31, 2001. These debentures are scheduled to mature on July 4, 2007 and may be repaid at maturity, at the Company's option, in cash or common shares of Emco Limited. The $6\frac{1}{2}\%$ debentures are convertible, at the option of the holder, into common shares of the Company at a conversion price of $19.75 per share. The debentures may also be redeemed by the Company at any time after January 4, 2002 and prior to maturity at par with cash or with common shares of Emco Limited.

As outlined in note 1 to the consolidated financial statements, the Company has included the debt component of these debentures, $19.5 million as at December 31, 2001, as a component of its long-term liabilities, and has included the equity component of the debentures, $48.2 million at December 31, 2001, as part of shareholders' equity.

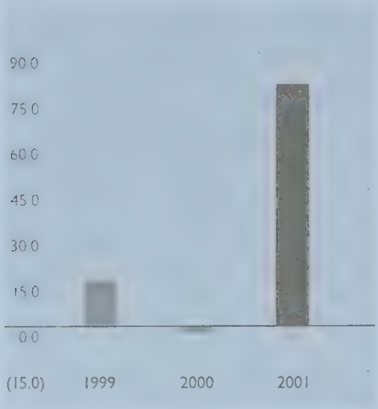
At December 31, 2001, 81.5% of the Company's total indebtedness, relating to the subordinated debentures and a $75 million fixed rate interest rate swap arrangement, is subject to a weighted average fixed interest rate of 6.55%. In comparison, 62.5% of the total indebtedness at December 31, 2000, relating to the subordinated debentures and the interest rate swap agreement, was subject to a weighted average fixed interest rate of 6.55%. The equity component of the $6\frac{1}{2}\%$ convertible unsecured subordinated debentures has been included as part of the Company's total indebtedness in determining the weighted average fixed interest rates for 2001 and 2000.

Emco does not have any significant currency exchange risk. The exposure related to Emco's investment in its U.S. subsidiaries is partially offset by the Company's U.S. dollar borrowings. Its trade account balances with U.S. suppliers and customers also represent a partial, natural hedge. The Company accounts for currency gains and losses on the translation of the investment in its U.S. subsidiaries and the borrowings in U.S. funds as part of the cumulative translation adjustments in shareholders' equity. Currency gains and losses arising during the year that relate to trade account balances are included in the results of operations. The balance of the cumulative translation adjustments increased during the year from $3.0 million at December 31, 2000 to $3.9 million at December 31, 2001.

Debt to Equity Ratio
(at December 31)



Cash Flows from Operating Activities
($ millions)



> Consolidated Cash Flows

Total net cash generated by the Company in 2001 amounted to $70.0 million, a significant increase from $15.2 million in total cash used in the previous year. Cash flows from operating activities increased by $83.5 million over 2000 levels due to increased cash from operations and reductions in non-cash operating working capital. Cash used in investing activities in 2001 was $1.7 million lower than 2000.

Strong working capital management in 2001 generated $11.1 million from reductions in accounts receivable and $27.8 million from reductions in inventories. Since required income tax instalments during 2001 were minimal, the majority of the Company's current liability for income taxes for the year ended December 31, 2001 will become due at the end of February 2002.

Emco invested $14.9 million in new machinery and equipment in 2001 compared to $13.9 million in 2000. Expenditures in the current year were directed mainly towards further improvements in manufacturing efficiency and increased capacity at the Company's production facilities in Québec. Additional capital expenditures for these initiatives are planned for 2002 with the required funds to be provided by operations.

Purchases of property and equipment:

($ Millions)	**2001**	**2000**
By Business Segment:		
Distribution	$ 4.6	$ 6.9
Manufacturing	10.3	6.9
Corporate and other	0.0	0.1
	$ 14.9	$ 13.9
By Type of Expenditure:		
Expansion	$ 2.9	$ 4.6
Increase in efficiency	11.7	9.1
Environmental protection	0.3	0.2
	$ 14.9	$ 13.9

In 2001 and 2000, Emco sold certain properties, some under sale and leaseback arrangements. Gross proceeds for 2001 were $4.9 million less $0.3 million in selling expenses and, of the net proceeds to be received from the sales, $4.1 million was received in 2001. Gross proceeds for 2000 were $12.2 million less $0.7 million in selling expenses and of the net proceeds, $8.4 million was received in 2000 and $0.8 million was received in 2001. The balance of the proceeds from these sales will be received during the next three years.

During the second and third quarters of 2001, Emco purchased $2.9 million of its 6½% convertible debentures under a Normal Course Issuer Bid for a total cash consideration of $1.9 million. Under a separate Normal Course Issuer Bid, the Company announced its intention to repurchase shares but no shares were repurchased in 2001. During 2000, the Company repurchased 681,821 of its common shares and $3.0 million of its 6½% convertible debentures under a Normal Course Issuer Bid for a total cash consideration of $6.4 million.

Common shares have been issued from treasury under the Company's employee stock purchase plan for proceeds of $1.1 million in 2001 and $0.9 million in 2000.

> Environmental Matters

Emco has environmental programs designed to ensure that it continues to be in compliance with all applicable environmental regulations. The Company invested $0.3 million in related environmental capital expenditures in 2001 and anticipates that similar capital expenditures will be necessary over the next three years to ensure its facilities and operations continue to comply with such regulations.

Emco did not incur any material expense in addressing any environmental issues during the year ended December 31, 2001, nor is there any material expense or effect on operations presently anticipated for future years as a result of such requirements.

> Commitments and Contingencies

The Company leases certain facilities under agreements that expire at various dates with aggregate future minimum payments of $51.1 million. The Company also leases certain equipment and vehicles under operating leases that expire at various dates with aggregate future minimum payments of $10.0 million.

Certain actions and legal proceedings arising in the normal course of business, in addition to those otherwise provided for in the financial statements, are pending against the Company. It is the opinion of management that the outcome of these matters is not likely to have a material effect on the Company's financial position or the results of its operations.

> Outlook

The Conference Board of Canada's Winter 2002 forecast states that the Canadian economy is expected to be relatively weak in the first few months of 2002 but will begin to strengthen during the year. Overall, economic growth forecasted by the Conference Board for 2002 in Canada, as measured by the percent increase in Gross Domestic Product, is 1.6%. The Conference Board has also forecast interest rates to remain relatively low in 2002.

Management believes that the higher product margins in both segments and the reduction in expenses in Distribution in Canada will continue. The continuation of lower interest rates and the reductions in total debt outstanding should lead to lower interest expense in 2002. The customer approvals obtained by Metcraft in 2001 are expected to lead to increased sales volumes for that business in 2002. With all of these factors, and a relatively strong economy, Emco's results should continue to improve in 2002.

Forward-looking statements contained in the Management's Discussion & Analysis and other sections of this Annual Report are made based upon management's expectations and beliefs concerning future events. The business risks that the Company faces, changes in economic conditions and other uncertainties may affect Emco's ability to achieve these expectations. Actual results, therefore, could differ materially from those expressed or implied.

> Responsibility for financial reporting

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. Management is responsible for all information in the annual report and financial and operating data in the report are consistent, where appropriate, with the consolidated financial statements. Management is also responsible for ensuring that the choice and application of specific accounting policies and methods are appropriate in the Company's circumstances, and for maintaining appropriate internal controls over the financial reporting process to provide reasonable assurance that relevant and reliable financial information is produced.

Because a precise determination of many assets and liabilities is dependent on future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgement and with all information available. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in note 1 to the consolidated financial statements.

The Company's Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities, and is responsible for approving the financial information contained in the annual report. The Board of Directors annually appoints an audit committee comprised of outside directors. The committee meets with management, the Company's internal auditors and the independent auditors to review any significant accounting and auditing matters, discuss the results of audit examinations and assess internal controls over the financial reporting process. The audit committee also reviews the consolidated financial statements and auditors' report and submits its findings to the Board of Directors for their consideration in approving the consolidated financial statements.

Douglas E. Speers
President and Chief Executive Officer

London, Canada, February 14, 2002

Gordon E. Currie
Vice President,
Treasurer and Chief Financial Officer

> Auditors' report

We have audited the consolidated balance sheets of Emco Limited as at December 31, 2001 and December 31, 2000 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and December 31, 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

London, Canada, February 14, 2002

> Consolidated Statements of Earnings

Years ended December 31, 2001 and 2000

	2001	2000
	(000s)	
Sales	$ 1,264,489	$ 1,245,018
Cost of sales	978,902	981,109
Selling and administrative expenses	230,224	231,454
Depreciation and amortization	17,369	15,012
	1,226,495	1,227,575
Operating earnings	37,994	17,443
Interest and other (note 10)	19,099	22,515
Gains on disposals	(837)	(3,033)
	18,262	19,482
Earnings (loss) before income taxes	19,732	(2,039)
Income taxes (note 11) - current	10,100	(1,236)
- future	(2,100)	(2,564)
	8,000	(3,800)
	11,732	1,761
Non controlling interest in a subsidiary	2,134	–
Net earnings	$ 9,598	$ 1,761
Earnings per share (note 12)		
Basic	$ 0.51	$ 0.01
Diluted	$ 0.51	$ 0.01

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings

Years ended December 31, 2001 and 2000

	2001	2000
	(000s)	
Retained earnings, beginning of year	$ 50,042	$ 50,735
Net earnings	9,598	1,761
Discount (premium) on repurchase of shares and convertible debentures (note 9)	584	(804)
Increase in equity component of convertible debentures, net of tax	(1,740)	(1,650)
Retained earnings, end of year	$ 58,484	$ 50,042

See accompanying notes to consolidated financial statements.

> Consolidated Balance Sheets

December 31, 2001 and 2000

		2001		2000
			(000s)	
Assets				
Current assets:				
Accounts receivable	$	164,780	$	175,927
Inventories (note 3)		198,638		226,446
Income and other taxes receivable		–		1,353
Other		7,542		5,892
		370,960		409,618
Property, plant and equipment (note 4)		122,330		125,568
Other long-term assets (note 5)		23,195		26,334
Goodwill		28,536		28,357
	$	545,021	$	589,877
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	154,437	$	148,728
Income and other taxes payable		11,935		–
		166,372		148,728
Long-term debt (note 6)		114,561		180,676
Subordinated debentures (note 7)		50,716		55,447
Other post-retirement benefits (note 8)		9,059		9,111
Future income taxes (note 11)		20,267		24,813
Non controlling interest in a subsidiary		5,216		3,682
Shareholders' equity:				
Capital stock (note 9)		68,287		67,187
Equity component of convertible subordinated debentures		48,150		47,193
Retained earnings		58,484		50,042
Cumulative translation adjustments (note 14)		3,909		2,998
		178,830		167,420
Commitments and contingencies (notes 16 and 17)				
	$	545,021	$	589,877

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Fran G M Hennessey

Director

Director

> Consolidated Statements of Cash Flows

Years ended December 31, 2001 and 2000

		2001		2000
			(000s)	
Cash flows from operating activities				
Net earnings	$	9,598	$	1,761
Adjustments for:				
Depreciation and amortization		18,393		15,676
Gains on disposal		(837)		(3,033)
Future income taxes		(4,546)		(3,363)
Non controlling interest in a subsidiary		2,134		–
Changes in non-cash working capital:				
Accounts receivable		11,147		2,538
Inventories		27,808		(9,056)
Accounts payable and accrued liabilities		5,147		(17,539)
Income and other taxes payable (note 11)		14,204		1,163
Post retirement benefits		(52)		9,111
Other		(2,895)		(639)
		80,101		(3,381)
Cash flows from investing activities				
Purchases of property, plant and equipment		(14,906)		(13,904)
Proceeds on disposal of property, plant and equipment		3,110		9,112
Decrease (increase) in other long-term assets		1,682		(5,332)
Purchases of businesses (note 13)		–		(1,735)
		(10,114)		(11,859)
Total cash flows from operating and investing activities	$	69,987	$	(15,240)
Cash flows from financing activities				
Increase (decrease) in long-term debt	$	(64,749)	$	23,235
Repurchase of common shares		–		(4,252)
Repurchase of subordinated debentures		(3,030)		(2,178)
Reduction of debt component of 6 1/2% subordinated debentures		(2,708)		(2,503)
Distribution to non controlling interest		(600)		–
Issue of common shares		1,100		938
	$	(69,987)	$	15,240

See accompanying notes to consolidated financial statements.

> Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000

1. **Significant accounting policies:**

The accompanying financial statements are prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada which differ from generally accepted accounting principles in the United States as further described in note 20. Significant accounting policies are summarized below.

(a) *Principles of consolidation:*

The accompanying financial statements consolidate the accounts of all subsidiary companies. The non-controlling interest is based on the carrying values in the subsidiary company.

(b) *Foreign currency translation:*

Self-sustaining U.S. operations:

Assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenue and expense items are translated at the exchange rates in effect on the dates on which such items are recognized in the statement of earnings. Exchange gains and losses arising from such translations are deferred and included in cumulative translation adjustments as a separate component of shareholders' equity. Also included in cumulative translation adjustments are exchange gains and losses, from the date of designation, on foreign currency denominated loans that the Company has designated as a hedge of the Company's net investment in its U.S. operations.

Transaction gains and losses:

Transactions in foreign currencies are translated at the exchange rates in effect on the transaction dates. Monetary assets and liabilities resulting from such transactions are adjusted to reflect the exchange rates in effect at the balance sheet date and the resulting gain or loss is recognized in the statement of earnings.

(c) *Revenue recognition:*

The Company recognizes revenue as title to products is transferred to customers, net of applicable provisions for discounts, returns and allowances.

(d) *Inventories:*

Inventories are carried at the lower of cost and market, with cost determined on a first-in, first-out basis and market defined as replacement cost for raw materials and net realizable value for work in process and finished goods.

(e) *Property, plant and equipment:*

Property, plant and equipment are recorded at cost.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Depreciation rates are as follows; buildings, 2.5% to 5%, machinery and equipment, 6% to 20%. Leasehold improvements are generally depreciated over the length of the lease term.

(f) *Goodwill:*

The excess of the purchase price of businesses acquired over the fair value of the underlying net tangible assets is recorded as goodwill and amortized over periods up to 40 years based on the expected future benefits. Management reviews the carrying amounts and remaining useful lives of goodwill balances whenever events or changes in circumstances occur that could impair future operating cash flows of the businesses acquired.

(g) *Convertible subordinated debentures:*

The Company has accounted for the debt and equity components of the 6½% convertible subordinated debentures separately, in accordance with Canadian generally accepted accounting principles in effect at the time of their issuance. The debt component represents the present value of required future interest payments to be made in respect of the debentures, calculated using prevailing interest rates for non-convertible instruments at the time of issue. The equity component (included as a separate component of shareholders' equity) represents the present value of the future distribution of common shares that the Company may, at its option, issue in satisfaction of the redemption or repayment of the debentures.

(h) *Pensions and other post-retirement benefits:*

The Company determines the costs of defined benefit pension plans and other post-retirement benefits earned by employees actuarially using the projected benefit method pro-rated on services and management's best estimate of expected plan investment performance, salary escalation, and expected health care costs and demographic trends. The discount rate used in determining the service cost and obligations is based on market yields in effect at the balance sheet date on high-quality debt instruments, for a duration that is consistent with the benefit obligations' duration.

The expected return on plan assets is calculated using market values. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of active employees at the date of the amendment. The excess of net actuarial gains and losses over 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets will be amortized over the average remaining service period of active employees.

For defined contribution pension plans, the employer contributions are expensed as incurred.

(i) *Stock-based compensation plans:*

The Company has stock-based compensation plans, which are described in note 9. No compensation expense is recognized for these plans when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to capital stock. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock options cancelled is charged to retained earnings. Entitlements under stock appreciation rights are recorded as compensation expense.

(j) *Derivative financial instruments:*

Amounts receivable or payable under interest rate swap agreements entered into from time to time to hedge interest rate exposures are accrued as interest rates change and are recognized as adjustments to interest expense.

Gains and losses related to foreign exchange contracts entered into to hedge certain accounts receivable denominated in foreign currencies are deferred and recognized when collections occur.

(k) *Income taxes:*

The Company applies the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized as the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the actual or substantive enactment date.

(l) *Earnings per share:*

Effective January 1, 2001, the Company adopted the revised Recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3500, Earnings Per Share. The revised Handbook Section requires the presentation of both basic and diluted earnings per share on the face of the income statement regardless of the materiality of the difference between them. In addition, the treasury stock method is used to compute the dilutive effect of options, warrants and similar instruments as opposed to the previously used imputed earnings approach. The section also requires that a reconciliation of the calculation of the basic and diluted earnings per share computations be disclosed. The revised Recommendations were applied retroactively with restatement of prior periods, which had no impact on earnings per share previously reported.

(m) *Measurement uncertainty:*

The preparation of the Company's financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosures of contingent assets and liabilities at the balance sheet date and the reported amount of revenue and expenses during the year. The inherent uncertainty involved in making such estimates may impact the actual results reported in future periods.

2. Accounting policy changes:

Effective January 1, 2001, the Company adopted the new Recommendations of the CICA for earnings per share, as set out in note 1*(l)*. The diluted earnings per share did not change when recalculated using the new Recommendations.

3. **Inventories:**

	2001		2000
		(000s)	
Raw materials	$ 6,615		$ 6,922
Work in process	2,828		3,343
Finished goods	189,195		216,181
	$ 198,638		$ 226,446

4. **Property, plant and equipment:**

	2001		2000
		(000s)	
Buildings and leasehold improvements	$ 55,607		$ 56,706
Machinery and equipment	176,977		164,455
	232,584		221,161
Less accumulated depreciation	117,860		104,109
	114,724		117,052
Land	7,606		8,516
	$ 122,330		$ 125,568

5. **Other long-term assets:**

	2001		2000
		(000s)	
Accrued benefit assets (note 8)	$ 12,765		$ 12,508
Long-term receivables and investments	4,822		6,583
Debt financing costs	4,152		4,959
Mortgages receivable	1,456		2,284
	$ 23,195		$ 26,334

Long-term receivables and investments in notes and preference shares arose primarily from the disposal of businesses in prior years. The carrying value of the long-term receivables and investments approximates their fair value due to the floating interest rates associated with these instruments.

6. **Long-term debt:**
The Company has a five-year bank credit facility provided by a syndicate of financial institutions, with the Bank of America Canada acting as agent for the other lenders. The revolving credit facility provides up to $300 million secured by the Company's assets other than property, plant and equipment. The capital expenditure term loan facility provides up to $25 million secured by the Company's machinery and equipment purchased under this facility. Both the revolving credit and the term loan facilities may be borrowed in Canadian or U.S. dollars with interest rates based on the lending rates of the Bank of America Canada, as determined from time to time. At December 31, 2001, and for most of the year, Canadian dollar borrowings were at an interest rate equal to three month Bankers' Acceptance plus $2^1/_4$% (2000 – prime plus $^3/_4$%) and U.S. dollar borrowings were at a rate of three month LIBOR rates plus $2^1/_4$% (2000 – LIBOR plus $2^1/_4$%).

The credit agreement is scheduled to mature in November 2005 and may be renewed annually thereafter, subject to the unanimous consent of the syndicate lenders.

	2001		2000
		(000s)	
Revolving facility under Bank of America Canada agreement:			
Canadian dollar borrowings	$ 56,691		$ 148,138
U.S. dollar borrowings	57,341		30,215
Other	529		2,323
	$ 114,561		$ 180,676

7. Subordinated debentures:

	2001	2000
	(000s)	
$7\frac{1}{4}\%$ subordinated debentures	$ 31,177	$ 32,276
Debt component of $6\frac{1}{2}\%$ convertible subordinated debentures	19,539	23,171
	$ 50,716	$ 55,447

The Company has fulfilled sinking fund obligations of the $7\frac{1}{4}\%$ subordinated debentures for the years 1999 through 2001 inclusive. The remaining balance becomes due on April 30, 2002. The credit facility described in note 6 has provisions in the borrowing base for the repayment of these debentures. Accordingly, no reclassification to current liabilities is required.

The $6\frac{1}{2}\%$ convertible unsecured subordinated debentures mature on July 4, 2007 and are redeemable by the Company at par after January 4, 2002. The Company may, at its option, satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity with common shares of Emco Limited.

The debentures are direct unsecured obligations of the Company, rank pari passu with each other and are subordinate to all other indebtedness of the Company for borrowed money.

8. Pensions and other post-retirement benefits:

The Company provides defined benefit and defined contribution pension plans with various benefit and contribution levels to employees. The Company funds the registered pension plans in accordance with provincial and tax legislation. Contributions made by the Company and its employees are deposited with trustees or insurance companies according to the terms of the plans. The plans' assets are invested in publicly traded equities, fixed income securities, real estate and term deposits. The Company does not fund the non-registered defined benefit pension plan.

The interval between actuarial valuations for pensions and other post-retirement benefits does not exceed three years with the most recent valuations prepared as at December 31, 2000. In the years between valuations, an extrapolation of the actuarial valuation is used to determine the market-related value of the plan assets and the projected benefit obligations. The Company is using November 30 as the measurement date.

The Company also provides other post-retirement health care and life insurance benefits for certain employees and their dependants. These employees become eligible upon retirement from the Company. These plans are essentially non-contributory and contain certain cost-sharing features such as deductibles and coinsurance. Other post-retirement health care benefit obligations are unfunded.

Significant weighted average assumptions used in determining projected benefit obligations and pension costs for the defined benefit plans are:

	2001	2000
Discount rate	7.0%	7.0%
Expected long term rate of return on plan assets	8.0%	8.0%
Rate of compensation increase	4.0%	4.0%

Significant weighted average assumptions used in determining other post-retirement benefit obligations are:

	2001	2000
Discount rate	7.0%	7.0%
Rate of compensation increase	4.0%	4.0%
Health cost trends		
Initial rate	8.5%	9.0%
Ultimate rate	5.0%	5.0%
Year ultimate rate reached	2004	2004

	Defined Benefit Pension Plans		Other Post-Retirement Benefits	
	2001	2000	2001	2000
		(000s)		
Components of net benefit plan expense				
Service cost	$ 1,408	$ 1,354	$ –	$ –
Interest cost	4,976	4,851	633	637
Expected return on plan assets	(6,609)	(6,468)	–	–
Net benefit plan expense	$ (225)	$ (263)	$ 633	$ 637
Change in accrued benefit obligation				
Accrued benefit obligation, beginning of year	$ 72,051	$ 69,686	$ 9,171	$ 9,226
Service cost	1,408	1,354	–	–
Interest cost	4,976	4,852	633	637
Participant contributions	257	240	–	–
Benefits paid	(4,993)	(3,960)	(802)	(692)
Actuarial (gain)/loss	(1,562)	(121)	2,330	–
Plan amendments	706	–	–	–
Accrued benefit obligation, end of year	$ 72,843	$ 72,051	$ 11,332	$ 9,171
Change in plan assets				
Fair value of plan assets, beginning of year	$ 84,867	$ 83,538	$ –	$ –
Actual return on plan assets	(1,962)	7,654	–	–
Employer contributions	1,005	96	802	692
Participant contributions	257	240	–	–
Benefits paid	(4,993)	(3,960)	(802)	(692)
Transfers to defined contribution plans	(757)	(1,756)	–	–
Administrative expenses	–	(945)	–	–
Fair value of plan assets, end of year	$ 78,417	$ 84,867	$ –	$ –
Reconciliation of funded status				
Funded status	$ 5,574	$ 12,816	$(11,332)	$ (9,171)
Unrecognized prior service cost	705	–	–	–
Unrecognized net actuarial (gain)/loss	6,647	(362)	2,330	–
Other	(161)	54	(57)	60
Accrued benefit assets (liabilities)	$ 12,765	$ 12,508	$ (9,059)	$ (9,111)

Included in the above accrued benefit obligations and fair value of plan assets are defined benefit pension plan obligations of $4.2 million (2000 - $3.4 million) and other post-retirement benefit obligations of $11.3 million (2000 - $9.2 million) in respect of plans that are not fully funded.

The net benefit plan expense for the defined contribution pension plan was $1.9 million (2000 - $2.0 million).

9. Capital stock:

	Authorized	Number of shares issued and outstanding 2001	2000
Preference shares without par value	Unlimited	–	–
Common shares without par value	Unlimited	15,615,322	15,383,450

The $6^{1}/_{2}$% convertible unsecured subordinated debentures are convertible at the option of the holder into common shares of the Company at any time at a conversion price of $19.75 per common share.

The Company has reserved 2,200,000 common shares for issuance under its 1991 long-term incentive plan. Stock options issued under this plan vest over a five-year period and are exercisable within ten years of issue, as set out in the table below. Under the plan the Company has also granted 254,550 stock appreciation rights at prices between $5.10 and $6.45. As at December 31, 2001, 224,250 (2000 - 130,650) rights remain outstanding. The rights vest over a five-year period, and are exercisable within ten years.

Stock option transactions under the 1991 long-term incentive plan during 2001 and 2000 are summarized as follows:

	2001		2000	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	1,557,200	$ 10.19	1,482,700	$ 10.79
Granted	175,000	5.10	166,000	5.50
Exercised	(8,000)	4.90	(7,800)	4.90
Cancelled	(37,400)	11.50	(83,700)	11.88
Outstanding, end of year	1,686,800	9.66	1,557,200	10.19
Options exercisable, end of year	1,073,360		868,824	

The following table summarizes information about the stock options outstanding at December 31, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/01	Weighted-Average Years Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/01	Weighted-Average Exercise Price
$ 4.90 to 5.00	169,180	4.1 years	$ 4.90	169,180	$ 4.90
5.01 to 7.50	720,740	6.7	6.04	308,300	6.68
7.51 to 10.00	73,460	2.1	9.50	73,460	9.50
10.01 to 12.50	317,600	5.2	11.20	254,080	11.20
12.51 to 15.00	31,600	5.4	14.47	31,600	14.47
15.01 to 17.25	374,220	6.1	17.10	236,740	17.02
	1,686,800	5.8	9.66	1,073,360	10.17

The Company has reserved 925,000 common shares for issuance under an employee stock purchase plan, which came into effect on September 1, 1993. The plan provides that employees may direct up to 5% of their salaries or wages to purchase common shares from treasury. The Company's contributions to the plan are equal to 50% of the employees' contributions to a maximum of 1.5% of the employees' salary or wages. As at December 31, 2001, 895,762 common shares had been issued for cash proceeds of approximately $6,530,269. As at December 31, 2000, 671,890 common shares had been issued for cash proceeds of approximately $5,481,000.

The Company announced Normal Course Issuer Bids on June 21, 2001 to purchase up to $3,600,000 or 5% of its $6^{1}/_{2}$% convertible subordinated debentures and on October 10, 2001 to purchase up to 778,714 or 5% of its common shares. As at December 31, 2001, the Company had repurchased $2,880,000 of the $6^{1}/_{2}$% convertible debentures at a cost of $1,926,978.

10. Interest and other:

	2001		2000
		(000s)	
Interest on long-term debt	$ 13,838		$ 17,151
Interest on subordinated debentures	4,209		4,517
Amortization of debt financing costs	1,052		847
	$ 19,099		$ 22,515

Cash interest paid during the year totalled $21.3 million (2000 - $23.9 million), including $4.6 million (2000 - $4.9 million) paid to holders of the 6½% convertible subordinated debentures. For financial statement purposes, interest on the 6½% convertible subordinated debentures has been accounted for in accordance with note 1(g).

11. Income taxes:

A reconciliation of combined statutory federal and provincial income tax rates to the effective tax rate on earnings (loss) before income taxes is as follows:

	2001		2000
		(000s)	
Earnings (loss) before income taxes	$ 19,732		$ (2,039)
Expected tax expense (recovery) at current Canadian statutory rates of 41.0% (2000 – 43.5%)	8,090		(887)
Effect of non-deductible adjustments	1,086		1,116
Manufacturing and processing profits deduction	(183)		154
Effect of variations in foreign tax rates	4		(211)
Effect of non-taxable portion of capital gains	(170)		(459)
Adjustment to future tax assets and liabilities for substantively enacted changes in Canadian tax rates	(950)		(4,000)
Other	123		487
	$ 8,000		$ (3,800)

The tax effects of the temporary differences which give rise to future tax assets and future tax liabilities at December 31, 2001 are as follows:

	2001	2000
Future income tax assets:		
Other post-retirement benefits	$ 3,092	$ 3,289
Deferred gains on disposals	2,004	1,663
Availability of U.S. losses	127	561
Non-deductible reserves	1,829	1,671
Other	17	290
	$ 7,069	$ 7,474
Future income tax liabilities:		
Property, plant and equipment	$ 21,424	$ 27,238
Defined benefit pension plans	4,205	4,545
Other	1,707	504
	$ 27,336	$ 32,287
	$ 20,267	$ 24,813

Total income taxes refunded during the year amounted to $2.1 million (2000 - $2.5 million).

12. Earnings per share:

	2001	2000
	(000s)	
Net earnings	$ 9,598	$ 1,761
Deemed dividend on convertible debentures, net of tax	(1,740)	(1,650)
Earnings available to common shareholders	$ 7,858	$ 111
Common shares outstanding, basic and diluted	15,516	15,474

Subordinated debentures and stock options did not have a dilutive effect on earnings per share.

13. Acquisitions:

On September 19, 2000, the Company entered into an agreement to purchase the assets of Bédard Cascades Inc., a manufacturer of asphalt roofing felt in Québec. This acquisition, now operating as North American Felt, is a step purchase, with the Company initially acquiring 50% of the common shares and increasing the common shareholdings, under certain conditions, to 75% on August 31, 2003, and 100% on August 31, 2004. The acquisition is being accounted for by the purchase method with results of operations being included from the date of acquisition.

The net assets acquired at their assigned values and the consideration for the acquisition is as follows:

	2000
	(000s)
Fair value of net assets acquired	
Assets acquired	$ 9,867
Less liabilities assumed	2,503
	7,364
Non-controlling interest	3,682
	3,682
Goodwill	692
	$ 4,374
Consideration:	
Cash	$ –
Notes payable	4,374
Total consideration	$ 4,374

During 2000, the Company recorded $1.7 million of goodwill relating to past acquisitions. This goodwill arose as a result of these operations exceeding specified earnings levels. No acquisitions were made by the Company in 2001.

14. Financial instruments:

The Company has only limited involvement with derivative financial instruments and does not use them for trading purposes. They are used to manage well-defined interest rate and foreign exchange risks.

Interest rate swap agreements have been used from time to time to manage interest expense associated with the Company's long-term debt. As required by the terms of the banking agreement, described in note 6, the Company entered into an interest rate swap agreement for a notional amount of $75.0 million resulting in an effective conversion of this amount of the floating rate debt into debt with a fixed rate of 6.30%. This agreement expires in November 2005 and requires the Company to pay to (or receive from) a counterparty, on a quarterly basis, the difference between prevailing floating rates and the fixed rate.

The following table presents the carrying amounts and fair values of the Company's financial instruments at December 31, 2001 and 2000:

	2001		2000	
	(000s)			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
$7\frac{1}{4}$% subordinated debentures	$ 31,177	$ 31,073	$ 32,276	$ 30,178
$6\frac{1}{2}$% convertible subordinated debentures	67,689	54,605	70,364	35,182
Interest rate swap agreement	–	(5,283)	–	(732)

The fair values of the Company's debentures are determined based on quoted market prices at December 31, 2001 and 2000. The fair value of the interest rate swap agreement reflects the estimated amount that the Company would receive or pay to terminate the agreement, based on quoted market prices. The fair values of all other financial instruments at December 31, 2001 and 2000 are considered to approximate their carrying amounts.

Foreign exchange losses aggregating $2.9 million (2000 - $3.0 million) on U.S. dollar denominated bank debt, which has been designated as a hedge of the Company's net investment in its U.S. operations, have been included in cumulative translation adjustments, as an offset to exchange gains arising on translation of the financial statements of the U.S. operations of $3.9 million (2000 - $2.9 million).

The company enters into forward contracts to sell U.S. dollars to hedge the exchange rate fluctuations on U.S. dollar denominated accounts receivable. At December 31, 2001, the Company had outstanding forward contracts to sell approximately U.S. $2.0 million at a rate of $1.00 U.S. to $1.55 Canadian, maturing in February 2002.

15. Related party transactions:

For the year ended December 31, 2001, the Company purchased $31.5 million of goods and services (2000 - $34.8 million) from affiliates of Masco Corporation, a principal shareholder of the Company. At December 31, 2001 the trade accounts payable balance due to these affiliated companies was $9.3 million (2000 - $7.6 million). These transactions are in the normal course of business at market prices and under normal trade terms.

16. Commitments:

The Company leases certain facilities, equipment and vehicles under operating leases. The leases expire at various dates and require aggregate future minimum payments of $61.1 million. Minimum payments required under these leases over the next five years are as follows:

	(000s)
2002	$ 15,902
2003	$ 12,615
2004	$ 9,376
2005	$ 7,804
2006	$ 5,612
Thereafter	$ 9,791

17. Contingencies:

Certain actions and legal proceedings arising in the normal course of business, in addition to those otherwise provided for in the financial statements, are pending against the Company. In the opinion of management, the outcome of these matters is not likely to have a material adverse effect on the Company's financial position or the results of its operations.

18. Segmented information:

The Company has defined its reportable segments to be Distribution, a wholesale distributor of plumbing, waterworks and industrial products and Manufacturing, a manufacturer and distributor of building products, food service equipment and securityware. Corporate has responsibility for finance, taxation, treasury management, corporate development, human resources and legal. This segmentation is consistent with the manner in which senior management makes operating decisions and evaluates performance. The Company evaluates performance based on profit or loss from operations before interest, gains on disposals and income taxes.

The operating results and identifiable assets by reportable segment and geographic area are as follows:

REPORTABLE SEGMENTS		2001	2000
		(000s)	
Sales	Distribution	$ 949,978	$ 981,725
	Manufacturing	314,511	263,293
		$ 1,264,489	$ 1,245,018
Operating earnings	Distribution	$ 20,402	$ 14,511
	Manufacturing	27,396	9,674
	Corporate and other	(9,804)	(6,742)
		$ 37,994	$ 17,443
Identifiable assets	Distribution	$ 351,818	$ 379,989
	Manufacturing	170,166	181,466
	Corporate and other	23,037	28,422
		$ 545,021	$ 589,877
Depreciation and amortization	Distribution	$ 6,052	$ 4,434
	Manufacturing	11,121	10,217
	Corporate and other	196	361
		$ 17,369	$ 15,012
Capital expenditures	Distribution	$ 4,608	$ 6,867
	Manufacturing	10,253	6,923
	Corporate and other	45	114
		$ 14,906	$ 13,904
Gains on disposals	Distribution	$ 753	$ 2,881
	Manufacturing	20	78
	Corporate and other	64	74
		$ 837	$ 3,033

GEOGRAPHIC AREAS	2001	2000
	(000s)	
Sales to customers located in:		
Canada	$ 1,106,049	$ 1,101,532
United States	156,334	141,801
Other	2,106	1,685
	$ 1,264,489	$ 1,245,018
Capital assets and goodwill:		
Canada	$ 132,342	$ 136,821
United States	18,524	17,104
	$ 150,866	$ 153,925

19. Future accounting policy changes:

a) *Goodwill and other intangible assets:*
The CICA recently issued new Handbook Sections 1581, Business Combinations, and 3062, Goodwill and Other Intangible Assets. Effective July 1, 2001, the standards require that all business combinations be accounted for using the purchase method. Goodwill resulting from business acquisitions on or before July 1, 2001 is not being amortized. Additionally, effective January 1, 2002, goodwill and intangible assets with an indefinite life will no longer be amortized to earnings and will be assessed for impairment on an annual basis in accordance with the new standards, including a transitional impairment test whereby any resulting impairment will be charged to opening retained earnings. Management is currently evaluating the impact of the adoption of the new standards, and has not yet completed the assessment of the quantitative impact on its financial statements.

b) *Stock-based compensation:*
The CICA also recently issued new Handbook Section 3870, Stock based compensation and other stock-based payments. This Section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services and applies to transactions, including non-reciprocal transactions, in which an enterprise grants shares of common stock, stock options, or other equity instruments, or incurs liabilities based on the price of common stock or other equity instruments. This Section sets out a fair value based method of accounting and is required for certain stock-based transactions, effective January 1, 2002 and applied to awards granted on or after that date. The adoption of these Recommendations will require the accrual and amortization of compensation costs associated with stock appreciation rights over the vesting period.

c) *Hedging relationships:*
Accounting Guideline 13 ("AcG-13") establishes new criteria for hedge accounting and will apply to all hedging relationships in effect on or after January 1, 2003. To qualify for hedge accounting, the hedging relationship must be appropriately documented at the inception of the hedge and there must be reasonable assurance, both at the inception and throughout the term of the hedge, that the hedging relationship will be effective. Effectiveness requires a high correlation of changes in fair values or cash flows between the hedged item and the hedge. The Company assesses all hedging relationships to determine if all the criteria are met in applying Statement of Financial Accounting Standards ("SFAS") No. 133 for purposes of disclosure in note 20(g). Management will review the impact of the transitional provision of AcG-13 for purposes of applying this guideline effective January 1, 2003.

20. United States generally accepted accounting principles:

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada which, in the case of the Company, conform in all material respects with GAAP in the United States, except as follows:

a) Canadian GAAP for pensions and other post-retirement benefits is largely consistent with United States GAAP. Transitional amounts, including prior years' unamortized balances relating to items such as actuarial gains and losses and past service costs, have been accounted for retroactively for Canadian GAAP purposes as a charge to opening retained earnings as at the implementation date of January 1, 2000. Under United States GAAP, any unamortized balances from prior years continue to be reflected in the determination of future periods' cost of pensions and other post-retirement benefits. Accordingly, under United States GAAP, net earnings would have decreased by $1.0 million (2000 - $0.5 million) and shareholders' equity and accrued benefit assets would have decreased by $3.9 million (2000 - $2.9 million).

b) Canadian GAAP requires the principal amount of convertible debentures that may be settled on maturity with common shares of the issuer to be allocated between debt and equity in the manner described in note 1(g). Under United States GAAP, this allocation and the related charge to retained earnings, to reflect the increase in the present value of the equity component, is not required. The impact on net earnings under United States GAAP would have been a decrease of $1.8 million (2000 – $1.7 million), while shareholders' equity would have decreased and the balance of subordinated debentures would have increased by $48.2 million (2000 – $47.2 million).

c) The Company accounts for income taxes under Canadian GAAP in accordance with the asset and liability method, which generally conforms with United States GAAP under SFAS No. 109. However, Canadian GAAP requires that the effect of substantively enacted changes in tax laws and rates on the measurement of income tax assets and liabilities be recognized in the period of change. SFAS No. 109 does not allow the use of a substantively enacted income tax rates. During 2001, tax rates that were substantively enacted in 2000 were proclaimed into law, thus reversing the reconciling item of the prior year. Accordingly, 2001 net earnings under United States GAAP would have increased by $4.0 million. 2000 net earnings and shareholders' equity would have decreased by $4.0 million and future income tax liabilities would have increased by $4.0 million.

d) United States GAAP requires full deferral of any gain on a sale involving a minor leaseback, where vendor financing has been provided. Accordingly, under United States GAAP, net earnings and shareholders' equity in 2000 would have decreased by $1.3 million and accrued liabilities would have increased by $1.3 million. This item would have had no impact on 2001 net earnings.

e) United States GAAP under SFAS No. 130 requires disclosure of comprehensive income, being the result of all changes in shareholders' equity during the year other than transactions with owners. Canadian and United States GAAP require exchange gains and losses arising from the translation of foreign currency denominated assets and liabilities of self-sustaining foreign operations to be deferred and included in cumulative translation adjustments, as a separate component of shareholders' equity. The impact of cumulative translation adjustments on the Company's net investment in U.S. operations reflected as a separate component of shareholders' equity on comprehensive income under United States GAAP would have been an increase of $3.8 million (2000 - $0.1 million decrease).

f) Under United States GAAP, the Company would have elected to continue to apply the provisions of Accounting Principles Board Opinion 25 "Accounting for Stock Issued to Employees" and accordingly the Company's stock options would not have given rise to compensation expense.

g) Under Canadian GAAP, the Company follows hedge accounting as described in notes 1(b) and 1(j). Under United States GAAP, hedge accounting has not been applied subsequent to the adoption of SFAS No. 133 "Accounting for Derivative Instruments as Hedging Activities" effective January 1, 2001. Accordingly, under United States GAAP net earnings for 2001 would have decreased by $5.3 million for the fair value adjustment and the cumulative translation adjustment on the interest rate swap agreement. In addition, under United States GAAP net earnings for 2001 would have decreased by $2.9 million on the translation of U.S. dollar denominated debt.

h) In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Intangible Assets". These statements are substantially consistent with CICA Sections 1581 and 3062 (refer to note 19) except that under United States GAAP, any transitional impairment charge is recognized in earnings as a cumulative effect of a change in accounting principle. Under Canadian GAAP, the cumulative adjustment is recognized in opening retained earnings.

In October 2001, FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets", which retains the fundamental provisions of SFAS No. 121 for recognizing and measuring impairment losses of long-lived assets other than goodwill. SFAS No. 144 also broadens the definition of discontinued operations to include all distinguishable components of an entity that will be eliminated from ongoing operations. This Statement is effective for the Company's fiscal year commencing January 1, 2002, to be applied prospectively. In August 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations" was approved and requires that the fair value of an asset retirement obligation be recorded as a liability, at fair value, in the period in which the Company incurs the obligation. SFAS No. 143 is effective for the Company's fiscal year commencing January 1, 2003. The Company expects the adoption of these standards will have no material impact on its consolidated financial statements.

A reconciliation of net earnings under Canadian GAAP to net earnings under United States GAAP is as follows:

	2001	2000
	(000s)	
Net earnings under Canadian GAAP	$ 9,598	$ 1,761
Add (deduct) impact of changes to:		
Pensions and other post-retirement benefits	(987)	(453)
Interest on convertible debentures	(1,839)	(1,650)
Income taxes	4,000	(4,000)
Gain on sale and minor leaseback	–	(1,333)
Fair value adjustment and cumulative translation adjustment	(5,283)	–
Foreign currency translation loss	(2,942)	–
Net earnings (loss) under United States GAAP	$ 2,547	$ (5,675)
Add (deduct) components of other comprehensive income:		
Foreign currency translation gain	3,853	(148)
Comprehensive income (loss) under United States GAAP	$ 6,400	$ (5,823)
Earnings per share under United States GAAP		
Basic	$ 0.16	$ (0.37)
Diluted	$ 0.16	$ (0.37)

Six year summary

	2001	2000	1999	1998	1997	1996
Operating Results *(in thousands of dollars)*						
Sales	1,264,489	1,245,018	1,244,216	1,242,721	1,261,844	1,136,584
Operating earnings[(1)]	37,994	17,443	31,796	42,294	62,312	46,178
Interest expense	18,047	21,668	14,160	14,660	13,375	19,295
Net earnings	9,598	1,761	10,688	29,419	30,612	17,811
Cash provided by (used in) operations	80,101	(3,381)	15,333	128	37,212	65,253
Depreciation and amortization	18,393	15,676	12,820	13,064	15,345	14,843
Capital expenditures	14,906	13,904	11,340	13,421	23,060	19,509
Financial Position *(in thousands of dollars)*						
Total assets	545,021	589,877	559,580	548,891	545,438	457,122
Working capital	204,588	260,890	247,159	235,033	171,949	154,868
Accounts receivable	164,780	175,927	177,385	172,903	171,918	148,559
Inventories	198,638	226,446	215,345	211,284	208,145	149,096
Property, plant and equipment	122,330	125,568	116,099	117,375	123,481	131,539
Goodwill	28,536	28,357	26,162	23,844	18,733	4,818
Long-term debt	114,561	180,676	154,198	76,147	26,054	64,590
Subordinated debentures	50,716	55,447	59,052	61,471	131,281	108,550
Shareholders' equity	178,830	167,420	171,654	235,585	199,431	126,069
Common Share Data						
(in dollars, except shares outstanding)						
Net earnings per share - basic	0.51	0.01	0.43	1.18	1.28	0.76
- diluted	0.51	0.01	0.43	1.09	1.21	0.76
Shareholders' equity per share	8.37	7.82	7.89	8.08	6.73	5.41
Stock price[(2)]:						
High	7.25	7.20	11.90	17.75	17.90	9.15
Low	3.35	2.85	5.25	6.60	8.75	4.85
Close	6.30	3.35	5.80	10.00	17.40	9.15
Shares outstanding at December 31 *(in thousands)*	15,615	15,383	15,893	23,758	23,495	23,319
Key Ratios						
Sales per employee	423,757	410,085	416,265	410,912	369,433	318,589
Operating earnings per employee	12,732	5,746	10,639	13,025	18,310	12,405
Total debt to equity	0.9	1.4	1.2	0.6	0.8	1.4
Total assets to total debt	3.3	2.5	2.6	4.0	3.5	2.6
Accounts receivable days sales outstanding	46	48	47	46	45	45
Inventory turns	4.6	4.1	4.3	4.3	5.6	5.4
Working capital turns	5.0	4.4	4.7	4.5	5.6	5.4

(1) Before restructuring charge in 1998

(2) The Toronto Stock Exchange

Corporate Organization

Corporate Directors

> Frank M. Hennessey
Chairman of the Board
Emco Limited

> Richard B. Grogan
Director
Emco Limited

> D. Brian Harrison
Director
Emco Limited

> David L. Johnston
President and Vice Chancellor
University of Waterloo

> Raymond F. Kennedy
President and Chief Operating Officer
Masco Corporation

> Wayne B. Lyon
Chairman
Lifestyle Furnishings International, Ltd.

> Douglas E. Speers
President and
Chief Executive Officer
Emco Limited

Corporate and Operating Executives

> Douglas E. Speers
President and
Chief Executive Officer

> Gordon E. Currie
Vice President, Treasurer and
Chief Financial Officer

> Roger K. Hollyman
Vice President,
Corporate Development

> Bradford W. Latner
Vice President,
Assistant Treasurer

> Walter D. LeGrow
Vice President,
Human Resources

> Mark F. Whitley
General Counsel and Secretary

> Richard J. Fantham
President
Wholesale Distribution

> Sheldon S. Leith
Vice President, Information Systems
and Supply Chain and
Chief Information Officer

> Stephen McIlwaine
Vice President
Master Distribution

> John Wm. Ricketts
President
Emco Building Products Ltd.

Committees of the Board

The Audit Committee is responsible for reviewing financial statements, reviewing the Company's financial reporting procedures, internal financial controls, the performance of the Company's internal audit department and external auditors, and reporting on these issues to the Board.
Membership:
D. Brian Harrison, Chairman
Richard B. Grogan
Raymond F. Kennedy

The Human Resources Committee is responsible for reviewing succession plans, compensation of senior executives, compensation of directors, charitable donations and making recommendations to the Board on these matters.
Membership:
David L. Johnston, Chairman
Frank M. Hennessey
Wayne B. Lyon

The Nominating Committee is responsible for proposing new nominees to the Board and assessing directors on an ongoing basis, in consultation with the Chairman and Chief Executive Officer.
Membership:
Raymond F. Kennedy
David L. Johnston
D. Brian Harrison

The Company's approach to corporate governance is outlined in its Management Information Circular.

Corporate Information

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620 Richmond Street
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Internet homepage: www.emcoltd.com

Share Listings
The Toronto Stock Exchange (EML)
The Nasdaq Stock Market (EMLTF)

Convertible Debenture Listing
The Toronto Stock Exchange (EML.DB)

Transfer Agents and Registrars
Common Shares & Debentures
Computershare Trust Company of Canada, Toronto

Co-Transfer Agent
Common Shares
Computershare Trust Company, Inc., Denver Co.

Auditors
KPMG LLP
140 Fullarton Street, Suite 1400
P. O. Box 2305, London, Ontario N6A 5P2

Duplicate Communication
Some registered holders of Emco Limited shares may receive more than one copy of shareholder mailings such as this Annual Report. So that duplicate mailings can be avoided in the future, shareholders are asked to please contact:

Susan Holmes
Executive Assistant, Investor Relations
Telephone: (519) 645-3927
E-mail: sholmes@emcoltd.com

Annual Meeting
The Annual General Meeting of Shareholders will be held on Thursday, May 2, 2002 at 11:00 a.m. at the London Convention Centre, 300 York Street, London, Ontario, Canada.

Shareholders are encouraged to attend the meeting, but those unable to do so are asked to sign and return the form of proxy mailed with the Management Information Circular.

Interim Reports
Interim reports to shareholders, for the 2002 fiscal year, are scheduled for mailing in April, July, and October 2002 and February 2003.

Inquiries
Shareholders
For information regarding individual stock records, transactions, share certificates or stock transfers, please contact:
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